Balaji Telefilms Limited

Annual Report 2006-07

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Balaji Telefilms Limited

www.balajitelefilms.com

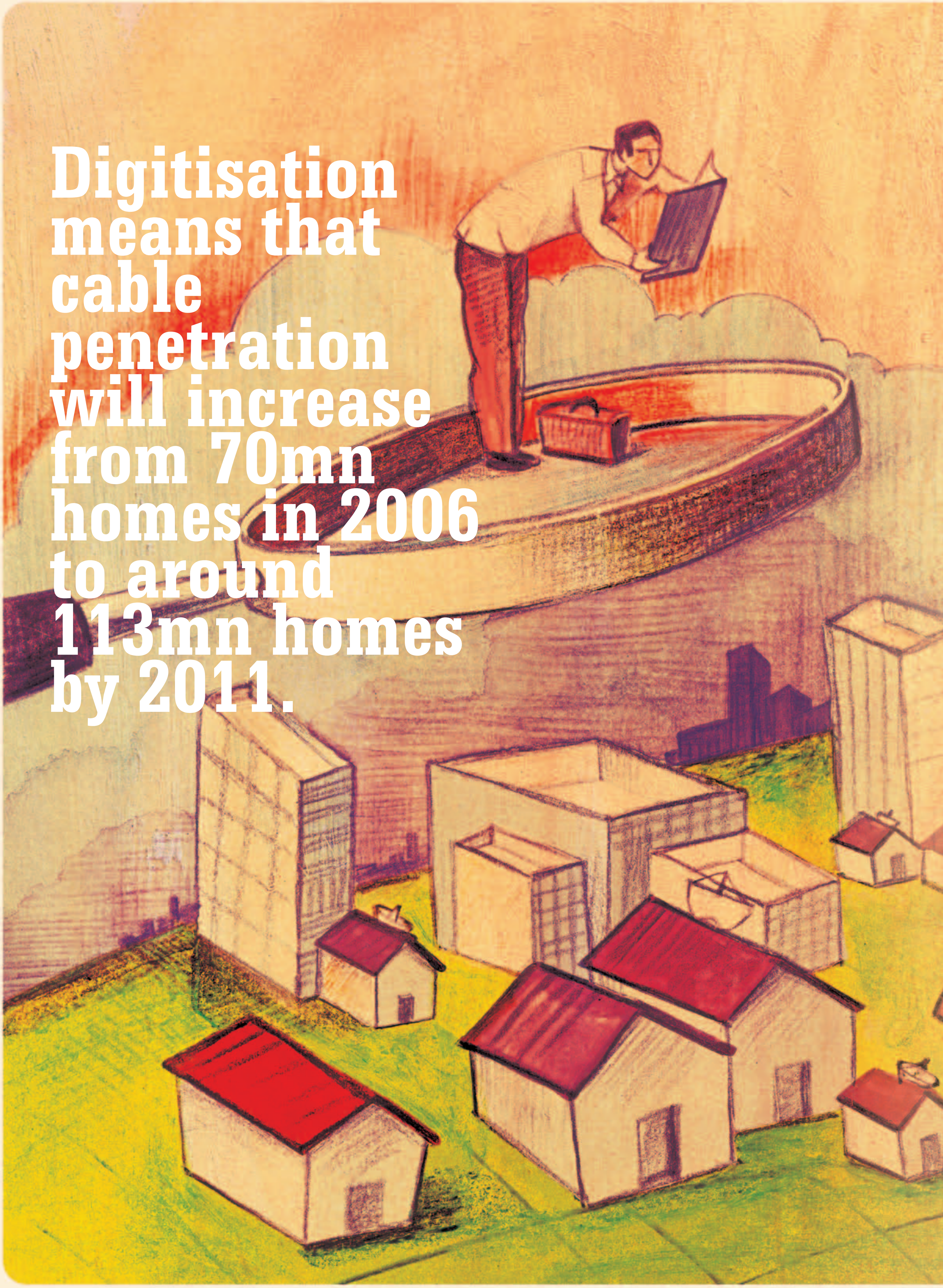
Can I pay for only what I watch? When will cable be really cheap? Can't my laptop be my TV? How do I get on to prime time in a village with no cable operator? You mean to say that my subscription was never reported to the broadcasting company for years? Why should I get only 110 channels when there are 300 in existence? Is it the picture which is fuzzy, my TV lousy or do I really need an eye-check?

Analog to digital. Indian television finally makes the big leap. Will Balaji retain its leadership? Grow? Survive?

Ahhhhh.

This report takes you through the twists and turns of this landmark decision.

Make your own conclusion.



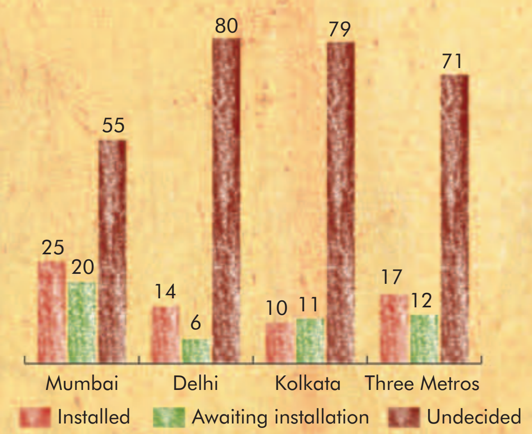
Digitisation means that cable penetration will increase from 70mn homes in 2006 to around 113mn homes by 2011.

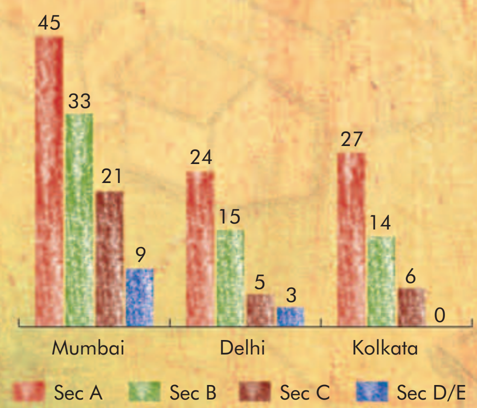
Have you seen an advertisement of a TV content distribution company promising free subscription for the first three months?

Well, welcome to the new dynamics of television content distribution in India. There is an entirely new community of companies going from pin code to pin code, street by street, building by building and door to door with two objectives: to convince non-cable owners to subscribe and existing cable owners to buy their brand.

There are around 112mn television households in India, 91 million TV sets, 68 million cable homes and only 2mn Direct-to-Home (DTH) households today.

Cable homes' scenario (%)





Source: TAM Media research

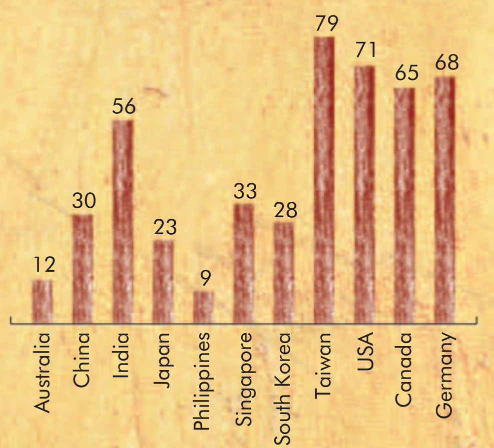
Big numbers

Now that there is someone dedicated to growing the market – not the cable man who only peeps his head through the door once a month – we can expect to see some eye-popping numbers. Here they are:

- Pay TV penetration is expected to reach 113 million by 2011
- The market added almost 1.2mn new digital pay TV customers during the first three months of 2007, following aggressive marketing.
- Cable households are expected to grow by four to five percent per annum over the next five years whereas DTH householdsare expected to grow by 43%, albeit from a lower base.
- The TV distribution market is expected to grow from the present size of Rs. 117 billion to Rs. 378 billion by 2011, implying a 26% cumulative annual growth over the next five years.

If more people see Balaji programmes, that could mean a bigger income and larger profits, right?

Cable television penetration (Percentage)



* MPA Report 2007

Digitisation means market growth means increase in advertising rates.

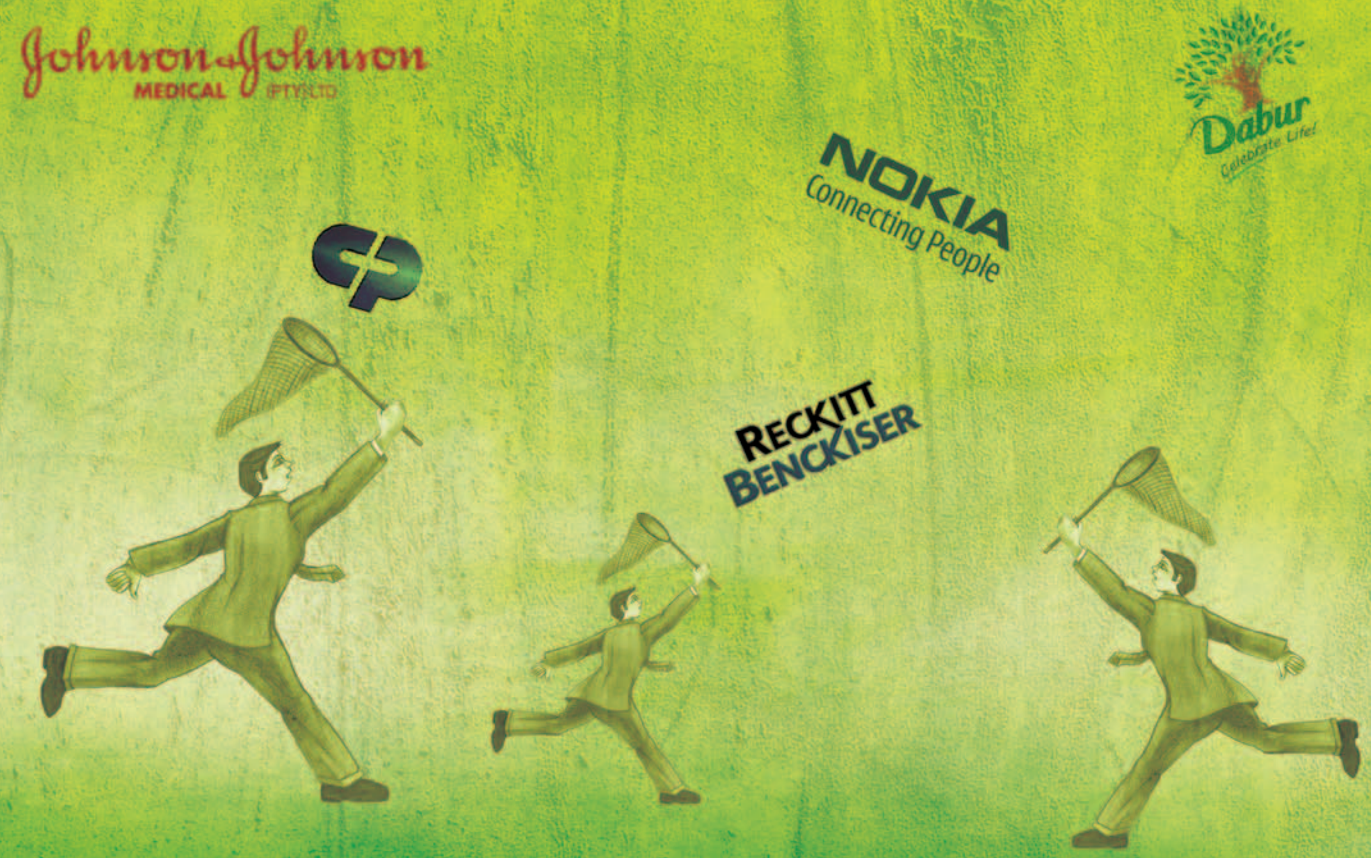
If the audience for your advertising doubles, would you – or would you not - increase your advertising rates?

This is precisely the argument of bullishness for content producers in India's television entertainment industry.

More viewers. Wider market. Bigger opportunity. Higher advertising rates. Better content fees.

India's television industry is attractively placed to capitalize on this opportunity. Just consider:

- India's robust economic growth has an attractive proxy in its advertising industry; the country's TV advertising market is expected to grow from Rs. 66 bn in 2006 to Rs. 123 bn by 2011.
- For brands that are national in strategy, the electronic media will remain the preferred communication route. As televisions and cable linkages penetrate deeper, electronic advertising as a proportion of the total advertising cake will increase beyond 45%.
- DTH and IPTV are expected to strengthen cable and satellite advertising from $1.02 billion in 2005 to $1.8 billion by 2010 and $2.4 billion by 2015 (source MPA report, March 2007).



The Balaji angle

Balaji is attractively placed to capitalize on this anticipated advertising boom. The Company's programmes enjoy the highest viewership on Prime time. More than 40 shows out of the top 100 are from Balaji. Channels collect maximum advertisement revenue from these shows. Balaji's shows account for almost 67% of Star Plus' prime time during weekdays.

So if India grows, more products are launched, there is a more accurate audience mapping, advertising rates increase, then Balaji...

Digitisation means a better visual quality at a lower cost – suddenly, far better value.

India has one of the lowest subscription rates for television content in the world.

With the government announcing a cap on channel subscription at Rs. 5 a channel for CAS-notified areas, consumer interest is being clearly protected. However, this hypothetically means that there will be a cap on broadcaster fees and, in turn, on a content provider's income, right?

So why are content providers smiling anyway?

For some good reasons.

• Low channel subscription will mean more people will migrate towards pay TV environment. So what broadcasters may lose out in terms of subscription, they will more than make up through higher subscribers numbers and advertising revenue.

• Since broadcasters will continue to market their channels as a package (or bouquet, as the industry calls it), one channel belonging to a broadcaster may make less money, while another may make more money but on the overall the broadcaster – especially the stronger ones with a varied bouquet – will be in a position to report attractive overall income

Balaji works with professionally managed broadcasters with brand equity, whose overall content mix viewers are willing to pay for. For instance, Star Plus, its principal customer, enjoys a viewership and reach that is 30% higher than the industry's number two (source IRS 2006).

Over the last six years, Star Plus secured its ranking as India's number one channel, consistently garnering an average of 42 out of the top 50 shows across all channels in Hindi speaking regions.

Balaji Telefilms is India's leading entertainment content provider in the fastest growing entertainment market in the world.

Capturing the highest market share in the largest genre.

- India's leading television content brand; enjoys a leading share of India's small screen content-providing business
- India's largest television content production house, headquartered in Mumbai
- More than just a successful player; redefined the industry in the last decade

A quick rewind

1995-96
Launched *Mano Ya Na Mano*, a thriller and *Hum Paanch*, the longest running television sitcom on Zee TV. Produced a musical show *Dhun Dhamaka*

1996-97
Launched *Padosan* on Doordarshan

1997-98
Launched *Itihaas*, the first ever daily soap on Doordarshan

1998-99
Launched its first soap in Tamil *Anubandhan* on Sun TV and *Captain House* on Doordarshan

1999-00
Launched *Kanyadaan*, a weekly soap on Sony TV and mega daily soaps on Gemini and Udaya TV

2000-01
Redefined India's prime time television through *Kyunki Saas bhi kabhi bahu thi* and *Kahaani Ghar Ghar Ki* serials

2001-02
Launched mega daily serials like *Kasautii Zindagii Kay, Kaahin Kissii Roz, Kkusum* and *Kutumb*

2002-03
Entered the high-end weekend programming segment; introduced new serials for Udaya and a youth-centric daily serial for Sahara TV

2003-04
Launched *Kahin To Hoga* on Star Plus and *Kayamath* on Doordarshan

2004-05
Launched 14 serials across diverse channels and completed 1000 episodes of *Kyunki Saas bhi kabhi bahu thi*

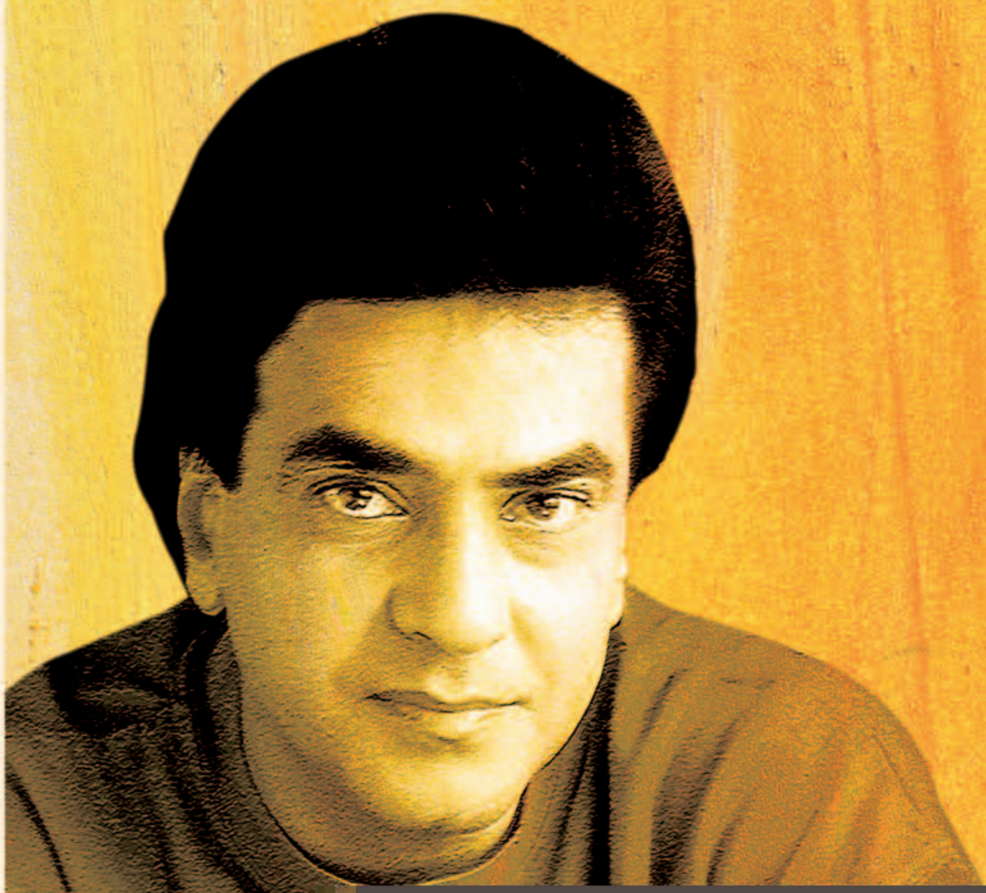
2005-06
Launched 7 serials across diverse channels

2006-07
Launched four new Hindi serials in the commissioned category and two in the sponsored category

Chairman's overview

"In India's television entertainment space, a significant transformation has begun. Graduating signals from the analog to the digital on the one hand. And consumer options across CAS, DTH and IPTV on the other.

We are pleased to state that Balaji Telefilms is attractively placed to ride the developments arising out of these industry inflection points."



Dear Shareholders,

If the mark of a successful man is a room for consistent constructive dissatisfaction, then I must confess that I have a slightly difficult task ahead of me. I need to state that we were fairly satisfied with the Company's performance in 2006-07 for the following reasons: we consolidated our strengths, seized opportunities and addressed emerging challenges.

The result was a 13% growth in our topline to Rs. 31746.68 lacs and an increase in our bottomline to Rs. 7943 lacs, a record on both counts.

Evolving industry scenario

The world is a dynamic place. Numerous changes are underway and 2006-07 was no exception. It was a deciding one for the Indian entertainment space, especially its television industry, for the following reasons:

• Burgeoning population with high disposable income and spending patterns

• Outsourcing of extensive content by broadcasting leaders, coupled with imminent broadband revolution in the industry

• Growing private sector participation in the entertainment space with more media channels entering the Indian entertainment sector

• Growing Indian consumer groups, influencing entertainment demand

• Increasing advertising spend

• Evolving content genres (news, sports, children, special interests, religion, home, health) affecting viewership

• India emerging as a destination for international broadcasters and production houses

• Cutting-edge technological advancements with cost and distribution implications

The conditional access system was the big story of 2006-07 and unlike the aborted experience of 2003, its rollout was now more structured. The result is that DTH and digital cable are expected to emerge as the big plays of 2007-08 with pay broadcasters expecting to net Rs. 3.5 to 4 billion from direct-to-home, the bulk of which is likely to be incremental without eating into cable TV. Going ahead, we expect that digital cable, voluntary CAS and headend-in-the-sky should all become a reality and make economic sense to content providers like us.

The Balaji response

Balaji Telefilms expects to capitalize on these sweeping industry changes. During the year under review, the Company responded with the following initiatives:

• Launched four new programmes in the commissioned category and two new shows in the sponsored category.

• Opened a wholly owned subsidiary in Sharjah (Balaji Telefilms FZE) to cater exclusively to that region and explore other destinations.

• Emerged as Star TV's leading content supplier. The Company has also entered into a JV with Star TV for the launch of regional language channels.

• Extended beyond the production of small screen content to the big screen with films like *Shootout at Lokhandwala* through our wholly owned subsidiary M/s. Balaji Motion Pictures Limited.

Outlook

India's entertainment industry is perched at the cusp of an exponential growth. The digital information age in a borderless world will surely create challenges in terms of technology changes and regulatory action.

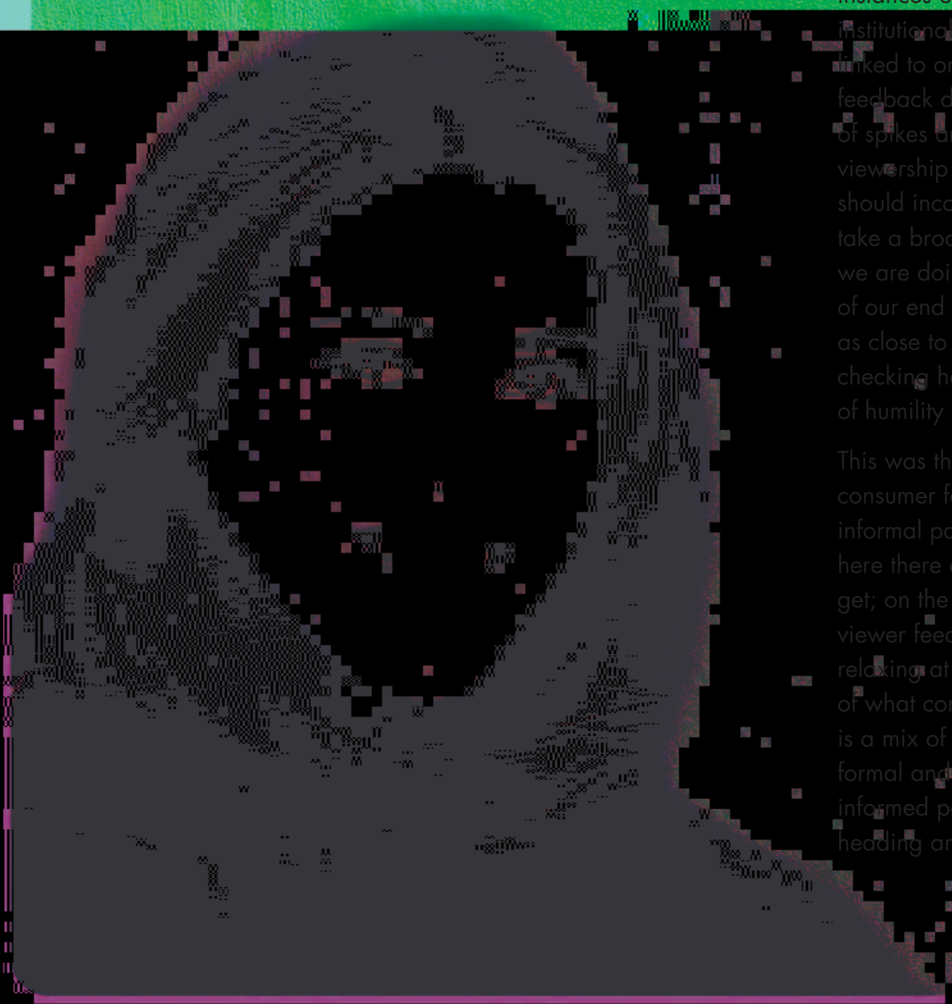
Our response will continue to be directed by innovation and ideation, resulting in increased wealth for all our stakeholders.

With regards,

Jeetendra Kapoor,
Chairman

"The space of family-centric content is easily the largest and likely to remain so over the coming years"

Ekta Kapoor, *Creative Director,* Balaji Telefilms, comments on the reasons for optimism in the aftermath of the CAS regime in 2006-07



The CAS system will be dictated by consumer response. How is Balaji geared to capture and analyse it?

This is where an organisation's entrenched culture of consumer-centricity comes into play. Take some instances of our formal intervention: we have an institutionalised 24x7 system to analyse weekly TRPs linked to ongoing scripting. This means that the feedback dictates content nature; it is the sequence of spikes and declines in viewership – a stable viewership is utopian – that suggests what twists we should incorporate into our storytelling. When you take a broader view of this, you realize that what we are doing is quite amazing, changing the nature of our end product based on consumer feedback in as close to real time as possible. Would be worth checking how many businesses can claim this kind of humility and consumer commitment.

This was the formally institutionalised form of consumer feedback sampling. Then there is the informal part, which is just about as potent. And here there are no numbers and percentages that we get; on the contrary, our creative teams sample viewer feedback while eating out or socializing or relaxing at the club, arriving at interesting insights of what consumers have to say about our content. It is a mix of the two feedbacks that we receive – formal and informal – that enables us to take an informed perspective of where our content is heading and what we need to do about it.

Has this feedback sampling worked?

I must concede that if the opinions were of only academic value to us, we would have been an ivory tower company with the creative team imprisoned in the chains of their own imagination. On the contrary, we showed a fair humility in the feedback and implementation discipline: for instance, in 2006-07, we interrupted our storyline with sharp twists that opened up entirely new scripting possibilities. We did a generation leap in two of our most popular shows *(Kyunki Saas Bhi Kabhi Bahu Thi and Kahanii Ghar Ghar Kii)*, opening up opportunities to introduce new faces and increasing viewer appeal. This is an important point; a number of observers feared that the serials would suffer from fatigue, which would inevitably compel us to pull them off the air. On the contrary, our responsiveness resulted in maintaining *Kyunki and Kahanii*'s TRPs at top positions in ratings.

Until now, Balaji focused on mass programming and family drama genres. As a result of the CAS, it might enter niche genres that will become more profitable.

I have been asked this on a number of occasions. My answer is quite like this: would we want to make money on volume or would we want to make it on value? Permit me to adapt this analogy to Balaji. Market research indicates that mass programming accounted for 48% of the viewership and nearly 57% of total advertising revenues. Within the mass entertainment segment, family-based social drama plots continued to be the most popular – 79% of the overall TRPs of the top 150 Hindi C&S shows – across all genres. This goes to show that the space of family-centric content is easily the largest and likely to remain so over the coming years. On the other hand, the space for niche content is considerably smaller. So while we will address the growing opportunities in each segment, the business will continue to be weighted towards the former. As a result, all the new daily shows that we launched in 2006-07 were family dramas; these achieved respectable TRP ratings within days of their launch.

One of the big challenges of the day is declining leisure hours. Besides, in the declining leisure hours, there is a greater distraction than ever before. TV viewing is getting increasingly fragmented. How do you expect to respond to this?

I would be unfaithful if I said that this is no issue at all. I must confess that I too am concerned about things that most people would consider peripheral to our business – for instance, the quality of roads, the traffic jams, the malls, the lounge bars, the declining cost of air tickets; in fact, everything under the sun that could lead a potential viewer away from the television box. I often worry: if people cannot get to watch a programme in the first place, how does it matter whether we make the best content in the country or the world?

But I also do recognize that these are the very reasons why my faith in our business continues to be vindicated. If someone comes home after a hard day, he or she needs to unwind and what better way to do so than in the front of the TV without watching the news of some stock market crash or train disaster but a soap that you think is an extension of your life? And that is when I begin to reinforce my conviction that we are indeed on a good wicket and our business model is indeed robust.

What is the big challenge for Balaji in 2007-08?

Stickiness! That's right, attracting and holding viewers. The challenge in doing it correctly will come from being a good sponge; being able to pick up what is happening in our society and reflect it faithfully on the small screen. And this is something that all of us will have to do; for that matter, my team and I personally visit international studios to keep abreast of what is happening in the world of media and entertainment.

We are competently placed in this regard: for one, our shows continue to hold the top positions in ratings and more importantly, we have a team of professionals, we have the cash to invest in production studios, sets and cutting-edge equipment and we have a strong portfolio of supports and accessories.

Last question: where now? Where does Balaji expect to go from here?

Overseas! In 2007-08, UAE, Sri Lanka and some other Asian countries will increasingly broadcast our content. In fact, the process is already on in the UAE. A team of more than 40 Balaji professionals in Sharjah are producing content for UAE audiences and the serial will be beamed on the popular ARY channel in the Middle East and Pakistan. *Khwahish*, the serial, is the first of its kind for a non-Indian audience from Balaji's stable, featuring actors from India, UAE and neighbouring countries, with content customization for a predominantly Muslim audience.

It might interest shareholders to know that the top two fictional shows in Sri Lanka are dubbed versions of *Kasautii Zindagi Kay and Kyunki Saas Bhi Kabhi Bahu Thi*. We are also entering into a contract with the leading TV channel in Sri Lanka for production of television serials in their local language. We expect to foray into the Indonesian market as well.

So in a few years from now, Balaji will have extended from the small screen to the big screen and established its presence in foreign countries as a leading content provider.

“I am happy to state that we not only protected the quality of our content, but also generated a higher realisation...”

Shobha Kapoor, *Managing Director,* reviews the Company’s performance in 2006-07 and outlines the agenda for 2007-08

What were the highlights for the year under review?

Balaji reported an appreciable improvement in 2006-07 in performance for the following reasons:

- Further alignment of the revenue model towards commissioned programming
- Foray into broadcasting through a mutually beneficial partnership with Star TV for regional markets
- Extension into the international market
- Extension from the small to the big screen
- Plans to enter the new media space

What were the principal challenges faced by the Company in 2006-07?

Sustaining growth, exploring new income avenues and creating content that would retain maximum ‘eye share’ in a CAS/DTH-driven world. I am happy to state that we not only protected the quality of our content, but also generated a higher realisation through rates renegotiated in the commissioned category.

How did the Company strengthen its competitive position?

We embarked on two big initiatives:

- An exclusive agreement with the Star Group, our prime customer and major shareholder (enjoying a 26% stake in our Company) to foray into broadcasting for regional markets which will increase our exposure in the prime time slots of these new channels in a phased manner.
- Joint ventures with leading film producers for which we set up a wholly owned subsidiary called Balaji Motion Pictures Ltd. to enhance our exposure in this area.

What is the reason for entering into films at a time when a number of film producers are moving to the small screen?

At Balaji, we have always maintained that story telling is our core competence, whether one needs to do so in compressed content formats (films) or extended formats (serials). In earlier years, we considered it prudent to specialize in the longer format for historical reasons, back-to-back customer contracts, organizational structure and de-risking. Today, we possess the confidence to state that there are a number of learnings and synergies that we can extend from one format to another without compromising our competitive position.

So the Company commissioned a fully owned subsidiary under the able guidance of Mr. Ramesh Sippy , who knows the medium and its requirements. Mr. Ramesh Sippy is in the distribution business for more than 35 years now.

This is what the subsidiary will do: in addition to producing films in collaboration with leading producers, it will produce films individually as well as distribute content for itself and provide the last mile support to other producers. The Company intends to make at least 4-5 releases a year, initially.

What is Balaji Telefilms FZE?

Concurrently, the Company has taken steps to develop content for the overseas markets. We have incorporated a subsidiary in Sharjah for this purpose called Balaji Telefilms FZE. This subsidiary will provide content exclusively to leading channels in that region with only limited telecast rights. We are in negotiations with leading channels for its subsequent telecast in India. Going ahead, we expect that our early implementation will translate into offers from leading Gulf channels to develop content for them.

What explains the Company's optimism in the CAS and DTH environment?

We feel that these will only increase the demand for quality content and will give production houses like us more leverage and a better say in rate negotiations.

How does the Company expect to de-risk from increasing customer concentration?

Definitely by extending beyond the time slots requisitioned to it previously and increasing its exposure across time bands in existing customer channels. A large market still exists for quality weekend programmes and afternoon slots. We have already started preliminary work on these new time slots.

The Company also expects to create customised content for regional channels through its exclusive agreement with the Star TV network where it will now command prime time slots and also address emerging opportunities in television-driven markets like West Bengal, Kerala and Tamil Nadu. We also expect to make forays into the film industry through the creation of differentiated films in collaboration with established production houses.

A mix of these progressively de-risked strategies is expected to significantly contribute to revenues in the next two years.

Balaji's programmes, 2006-07

Name of Serial	Channel	Time-slots	Days of telecast	Start date	End date
Commissioned					
Kaisa Ye Pyar Hai	Sony TV	20:00 - 20:30	4 (Mon - Thur)	29th Mar 05	5th Oct 06
Kandy Floss	Sony TV	23:00 - 23:30	1 (Fri)	10th Mar 06	14th Jul 06
Kyaa Hoga Nimmo Kaa	Star One	22:00 - 22:30	4 (Mon - Thur)	20th Mar 06	18th Jan 07
Kyunki Saas Bhi Kabhi Bahu Thi	Star Plus	22:30 - 23:00	5 (Mon - Fri)	3rd Jul 00	Still on air
Kahaani Ghar Ghar Kii	Star Plus	22:00 - 22:30	4 (Mon - Thur)	16th Oct 00	Still on air
Kasautii Zindagii Kay	Star Plus	20:30 - 21:00	5 (Mon - Fri)	29 Oct 01	Still on air
Kahiin to Hoga	Star Plus	23:00 - 23:30	5 (Mon - Fri)	8th Sept 03	16th Feb 07
Kesar	Star Plus	14:00 - 14:30	4 (Mon - Thur)	19th Apr 04	Still on air
K. Street Pali Hill	Star Plus	23:30 - 00:00	4 (Mon - Thur)	27th Sept 04	12th Oct 06
Kavyanjali	Star Plus	21:30 - 22:00	4 (Mon - Thur)	25th Jan 05	28th Aug 06
Thodi Si Zameen Thoda Sa Aasmaan	Star Plus	22:00 - 23:00	1 (Sun)	19th Aug 06	4th Mar 07
Karam Apnaa Apnaa	Star Plus	20:00 - 20:30	4 (Mon - Thur)	29th Aug 06	Still on air
Kayamath	Star Plus	23:00 - 23:30	4 (Mon - Thur)	19th Feb 07	Still on air
Hum Paanch	Zee TV	19:30 - 20:00	2 (Sat - Sun)	5th Nov 05	9th Apr 06
Kasamh Se	Zee TV	21:00 - 21:30	5 (Mon - Fri)	16th Jan 06	Still on air
Kosmiic Chat (2nd)	Zoom TV	21:30 - 22:00	1 (Sat)	20th May 06	26th Aug 06
Sponsored					
Kadambarii	Udaya	19:30 - 20:00	5 (Mon - Fri)	13th Dec 04	Still on air
Kumkuma Bhagya	Udaya	18:30 - 19:00	5 (Mon - Fri)	12th May 03	4th May 07
Kalyanee	Gemini	19:30 - 20:00	5 (Mon - Fri)	4th Jul 05	Still on air
Kasthuree	Sun TV	18:30 - 19:00	5 (Mon - Fri)	21st Aug 06	Still on air
Kalyanee	Surya	20:30 - 21:00	5 (Mon - Fri)	28th Aug 06	Still on air
Kankkana	Doordarshan	17:30 - 18:00	5 (Mon - Fri)	14th Nov 05	5th Jan 07
Kanya Daana	Udaya	18:00 - 18:30	5 (Mon - Fri)	1st Sept 03	12th May 06
Kavyanjali	Surya	20:30 - 21:00	5 (Mon - Fri)	24th May 04	25th Aug 06
Pavithra Bandham	Surya	18:30 - 19:00	5 (Mon - Fri)	4th Apr 05	4th Aug 06
Kanavarukaaha	Sun TV	22:30 - 23:00	5 (Mon - Fri)	25th Oct 04	26th May 06

Management's discussion and analysis

Global media and entertainment industry

The global entertainment and media industry is poised for an attractive 6.6% compounded annual growth to US $1.8 trillion in 2010 *(source PriceWaterhouseCoopers' Global Entertainment and Media Outlook, 2006-2010).*

The sector's evolution can be attributed to the following:

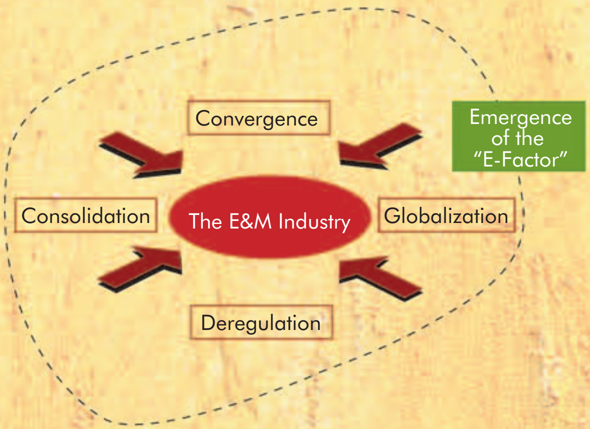
• Globalization: The need for entertainment and media companies to venture from domestic markets into overseas spaces to capture a larger global share

• Convergence: The need to meet the challenges of and the opportunities of convergence presented by the media and technology

• Deregulation: The need for lesser regulatory controls, more autonomy and freedom from the perspective of business activities and fund raising

• Consolidation: The need to grow through mergers and acquisitions; alternatively, a need to sell-out and /or enter into an alliance if long-term survival seems impractical on a stand-alone basis

• E-factor: The need to imbibe entertainment into various aspects and business activities of the consumer economy



Indian entertainment and media industry

• Current market size: Estimated at US $ 7.72 bn (INR 317 billion)

• Projected market: US$ 18.32 bn by 2010

• Growth rate: 19% CAGR

• Growth focus: Television and film segments

• Channel population: More than 300 national and regional TV channels

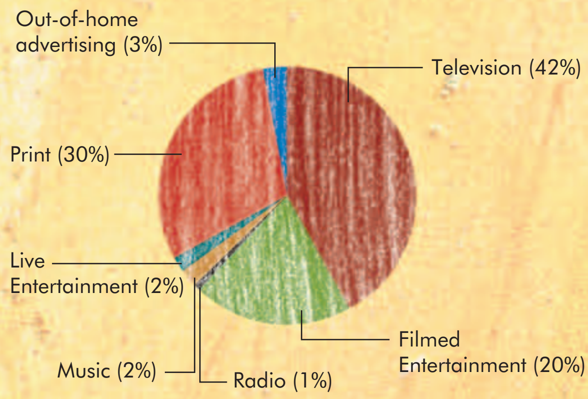
• Foreign investment climate: Liberal FDI policies across every industry segment

• Regulatory status: Selective government intervention to accelerate industry growth

The Indian media and entertainment industry comprise the following:

Industry	2006 ($ bn)	% share	'05-10 CAGR (%)	FDI limit (%)
Television	3.7	42	24	49
Filmed entertainment	1.7	20	18	100

Share of voice in entertainment pie



Source: 2006 annual edition of the FICCI-Price Waterhouse Coopers' report

In India, television is the largest entertainment segment accounting for nearly 42% of the industry's revenues followed by the print media (30%) and films (20%) in 2005-06. Going ahead, the share of television in the advertising pie is expected to increase to more than 50% by 2010.

Entertainment segments

Indian film industry

- Largest film producer in the world ~1000 films a year
- Sale of more than 3 billion tickets in 2005
- Gross revenues of over US$ 1.49 bn in 2005
- Revenue growth to US$ 3.35 bn by 2010 at a CAGR of 18%
- Progressive digitisation of theatres and multiplex growth
- Share of Hindi films estimated at almost half the market
- Share of foreign films placed at 2%
- Share of regional language films estimated at a little less than half the market
- Increasing incidence of dubbed Hollywood films

Indian television industry

- Largest industry segment with a market size of US$ 3.24 bn in 2005
- Market size expected to reach US$ 9.34 bn by 2010, a CAGR of 24%
- 58% of revenues derived from subscriptions followed by advertising and software
- Market marked by 105 million TV households and over 60 million cable connections
- TV penetration expected to increase to 135 mn households and cable connections to 85 million households by 2010

Evolving paradigms in the television industry

Going ahead, India's entertainment and media industry is expected to grow at a 19% compound rate to reach US$ 18.14 billion by 2010, outperforming the growth of the Indian economy in a significant way. This growth is likely to be marked by the following factors:

- End of distribution platform insulation: Cutting-edge distribution technologies have emerged, ending the technology insulation of India vis-à-vis other Asian markets like Hong Kong, Korea and Japan.

- Distribution set to change ground rules: Globally, whenever distribution channels explode, they set off a chain reaction in terms of market segmentation, new revenue opportunities and new pricing models. Competition is intensifying among satellite TV platforms like DTH, HITS, IPTV, CAS, and traditional cables.

- Specialization to segmentation: The industry specialization is already segmenting the market. Consumers groups watching specialist programming are extending the long tail of content. In this scenario, TV programmers and production houses, if unwilling to experiment, could be marginalised.

- Applications on demand: Emerging applications will increase the discerning consumer's appetite for varied content, typically instant and on-demand. Since most Indians watch television as one of their five prioritised daily activities, consumers will ask for a better deal when it comes to a wholesome viewing experience.

- Content mobility, malleability: Content 'on-demand' in other Asian markets has made it both mobile and malleable. Content mobility involves recording and transferring it from television into a cell phone, laptop or desktop.

- Newer contact points via localization: The print media, in the last three years, has enjoyed a larger share of the advertisement pie vis-à-vis television owing to distribution changes and reforms resulting into micro editions. That has in turn propelled localised advertising through a slew of first-time advertisers on print. The same is soon bound to happen in television. Local pizza stores, restaurants, banks, grocery, electronic retail and multiplexes will all jump in if micro-reach is possible via TV.

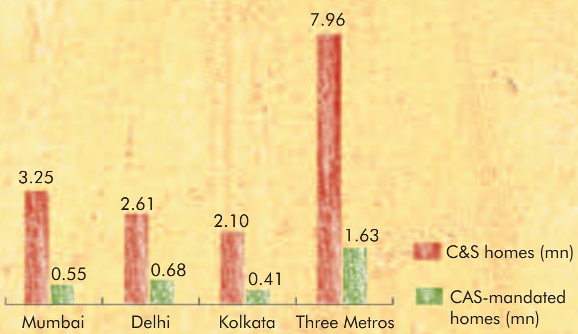
Conditional Access System

The introduction of CAS effective January 1, 2007 can be deemed as one of the most significant developments of the Indian television industry not just in 2006 but in the last three years. CAS was launched in select areas in three metro cities—Delhi, Mumbai and Kolkata. Chennai is the only city in India which had CAS prior to this.

As per the data released by TRAI, about half a million subscribers opted to adopt CAS in the notified areas by mid-February 2007. Of the estimated 1.63 mn homes in these three notified areas, the overall CAS adoption rate was at 29%, with the highest in Mumbai at 41%.

CAS notified area	No. of STBs opted upto Feb 15, 2007	Estimated no. of C&S homes in the CAS notified area*	Estimated rate of adoption
Delhi	189,622	680,000	28%
Mumbai	226,543	550,000	41%
Kolkata	49,620	410,000	12%
Total	**465,785**	**1,630,000**	**29%**

Foot print of CAS



Source: TAM Media research

Of the 756mn cable homes across the 3 metros, 1.63mn cable homes fall under the CAS-mandated zones (approximately 21% homes fall under the CAS-mandated homes)

C&S homes under the mandated areas, in the respective cities:

Mumbai: 17% (0.55mn of the 3.25mn cable homes)

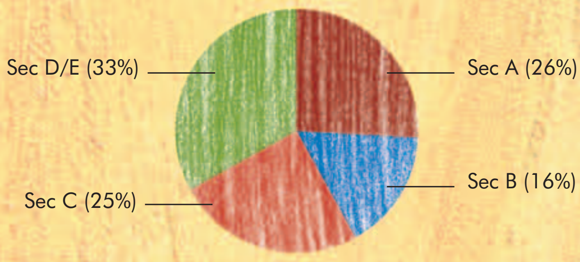
Delhi: 26% (0.68mn of 2.61mn cable homes)

Kolkata: 20% (0.41mn of the 2.1mn cable homes)

DTH

2006 was also the year of launch of the second private DTH player Tata-Sky after Zee's Dish TV in 2003. Though the DTH services were launched in August 2006, the real impact of the DTH service was felt when the introduction of CAS was announced. The month of December 2006 saw heavy advertising and marketing by both DTH players and MSOs offering digital cable under CAS. India's three DTH players have around 5.5mn subscribers with India's overall subscriber numbers doubling in the past three months.

DTH consumption by urban socio-economic classification



Source: TAM Media research

IPTV

Followed by extensive trials, MTNL launched the first IP services in Mumbai and Delhi in 2006. Though the current base of IPTV subscribers is extremely low, the year marked a beginning of IPTV services in India. Amongst the various challenges for IPTV service providers, the most significant one is whether the services fall under the ambit of telecom services or television services.

New television channels

Unfazed by the large number of existing channels, several new channels were launched in 2006 and several more were announced for launching in 2007. Some of these include announcements by NDTV of its plans of launching a 'General Entertainment Channel' in collaboration with Indian filmmaker Karan Johar. UTV announced the launch of a youth channel by the name of *Bindaas*. INX announced launch of a general entertainment channel by the year-end.

What drives success at Balaji?

1. Supply chain management

At Balaji, competent supply chain management is integral to success.

Conceptualisation: The Company has institutionalised the process of ideation and feedback collection on the basis of which ideas are either accepted or rejected.

Shoot management: A comprehensive production schedule follows ideation and scripting. This schedule is supported by responsibility allocation and planned equipment moblisation (generally from approved vendors at pre-negotiated volume-based rates). Artiste rates are negotiated well in advance based on the budget of the programme, criticality of role, artiste seniority and the extent of assignments provided by the Company to the artiste. Costumes are comprehensively coded and prudently used.

Logistics management: Since Balaji's customers require a reasonable ongoing episode inventory, the Company shoots more than eight serials simultaneously, each deploying 25-30 artistes. Each scene is supported by a director, scriptwriter, producer, cameraman, sound recorders, costume designers, make-up artists, spot boys, art directors and light men. To ensure their timely and collective availability, Balaji freezes complete scripts even before the first shot has been clapped, making it possible for schedules to be identified with clarity.
This makes it possible for the various teams to manage their onward responsibilities: one coordinates the availability of various technicians required to shoot an episode, another manages the availability of various props so that they arrive just when they are required — neither early nor late – another coordinates the costumes to match scene mood and flavour and yet another team fleshes out a scenewise budgeted estimate. This planning ensures the availability of a transparent blueprint on which scenewise profitability can be based, the building block of all profitability estimates.

Artiste and technician management: Since the Company plans and announces its production dates well in advance, there is a greater dependability on the timely availability and attendance of artistes and technicians.

Centralised purchase: The Company procures all equipment, properties and consumables through an in-house store to reduce its dependence on external vendors, enhance timely material availability and maximize savings through economies of scale.

Continuous improvement: The Company continues to invest in cutting-edge equipment and progressive practices leading to the following advantages:

- Low episode inventory, enhancing content flexibility in line with viewer feedback
- Timely compliance with deadlines and schedules
- Minimal wastage
- Rapid scalability

2. Channel-driving capabilities

In this business, from a narrow perspective, the job of the content provider ends with the delivery of episode material; from a broader perspective, it only represents the start of the delivery. This is so for an important reason: content providers must carry the unwritten responsibility of growing the popularity of its customer channels.

This is precisely what Balaji has consistently demonstrated across the last decade; its programmes have strengthened the visibility of customer channels. During 2006-07; this channel-driving capability was reflected in its serials being the top TRP grossers for their respective channels.

This down-the-line focus represents a win-win proposition: high viewership enables customer channels to raise advertising tariff, strengthening Balaji's position to negotiate a higher content fee. As a result, Balaji's programmes have evolved: from an ability to generate

revenues for customers to becoming integral to their corporate strategy.

3. Product management

In the business of content creation, it is not enough to merely deliver on time; it is imperative to specialize in a specific niche and bring to it a distinctiveness that evolves the programme into a brand. Balaji has done precisely this over the last decade. As a result, its differentiated family genre programmes have emerged as blockbusters over time. Much of this success is attributed to the ability to customize the product in line with external feedback.

TRP rating: Helps ascertain the popularity of Balaji's content, prompting corrective action.

Website: Balaji's website invites audience views.

Fan clubs: Serial-centric fan clubs provide valuable feedback.

Word of mouth: The creative team seeks feedback from its circle of influence.

Competition: Ongoing study of competing content and TRPs to assess audience preferences.

4. Talent management

The quality of content produced is the direct result of the quality of professionals who produce it. Over the years, Balaji has consistently produced winning content because the Company has recruited the best skills on the one hand or created an environment in which even inexperienced professionals can deliver their best. At the Company, this culture has been identified by the following initiatives:

Transparency: A visible extrapolation between individual effort, team achievement and above-average remuneration.

Hands-on training: The induction of new recruits under supervisors with ongoing appraisals.

Remuneration: A higher-than-industry average pay scale to attract the best talent.

Pride: A pride in belonging, strengthening retention.

5. Internal audit discipline

The business of content creation may be creativity-originated; however, it is sustained by a rigorous accounting discipline.

During the year under review, the Company strengthened its existing audit process, possibly the only one of its kind in the Asian entertainment industry. Covering more than 20 units, this audit discipline translated into the following:

- Creation of the first tier of cost control
- Maintenance of a comprehensive log book comprising episodes, scenes, scene details, shoot duration, equipment utilisation, scenes per artiste, attendance report as well as reasons for time over-run or under-performance or non-utilisation of resources (if any). This led to the creation of a rich database that could be accessed for ongoing benchmarking
- Creation of a daily MIS report submitted to the senior management to identify wasteful expenditure
- Creation of dockets to standardise all variable costs and analyse all variables
- Documentation of resource requirements by the production team, leading to an understanding of whether it is available in-house or needs to be outsourced
- Synchronisation of various production schedules for the optimal utilisation of artistes, technicians and hired props
- Request-for-proposal quotation process from multiple vendors, leading to transparent vendor development

As a result, the Company generated attractive savings through a rationalisation of people resources, efficiency in equipment utilisation, greater inter-departmental co-ordination and a restructuring of the accounting role in line with the ABC analysis of their function.

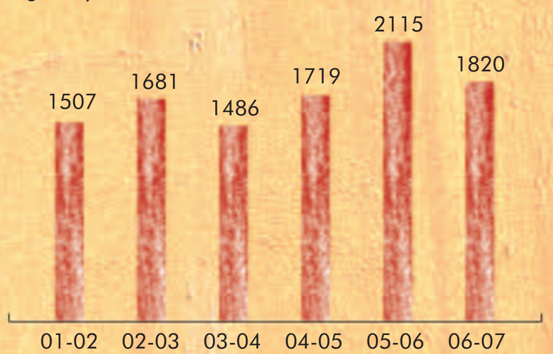
Operational review

Programmes

Balaji had 26 television serials on air during 2006-07, aggregating 70 episodes a week as on 31st March 2007 compared to 82 episodes a week as on 31st March 2006.

Programming hours

Total programming hours were 1820 in 2006-07. The Company launched six new shows in 2006-07 namely *Kayamath, Karam Apnaa Apnaa, Thodi Si Zameen Thoda Sa Aasmaan, Kasthuree, Kosmic Chat (2)* and *Kalyanee*. Balaji produced content for various channels during the year.



Programming mix

Sponsored: In this format, the Company buys telecast slots and receives free commercial time in exchange, which is then marketed to various advertisers. This is a variable revenue model: if the programme becomes popular, there is an attractive prospect for an upward rate revision. In this segment, the Company assumes the risk of content creation and marketing.

Sponsored programming hours declined from 1045 hours in 2005-06 to 759 hours in 2006-07; as a proportion of the Company's turnover, they declined from 12% in 2005-06 to 8% in 2006-07; average realisations from these programmes declined from Rs. 3.28 lacs per hour to Rs. 3.24 lacs per hour mainly becouse of the non-prime time telecast of these shows.

Commissioned: In this format, the Company creates content at the behest of channel owners assuming no marketing risk. As a result, the content is created for a fee with the probability of rate revisions in the event that the programmes become successful (as measured unambiguously by TRPs). These programmes represent an interesting balance between risk-neutrality and income-enhancement.

Commissioned programming hours decreased from 1067 in 2005-06 to 1061 hours in 2006-07; as a proportion of the Company's turnover, they increased to 92% in 2006-07; average realisations from these programmes increased by 25% i.e. Rs. 27.60 lacs per hour in 2006-07 from Rs. 22 lacs per hour in 2005-06 mainly due to the closure of some low budget shows.

The programming distribution in 2006-07

Language mix

The Company retained its position as one of the few large and successful multi-lingual production houses with an exposure across Hindi, Telugu, Tamil, Kannada and Malayalam.

Time bands

At Balaji, it is important to make programmes for a time-slot where it will be viewed by the widest number of people leading to the highest TRP and revenue.

Balaji did remarkably well in this regard over the years: 83% of its content was telecast on the evening prime time band — 8 pm to midnight — across its various customer

satellite channels, showcasing its programmes for the most profitable exploitation of content.

The Company retained its position as the undisputed prime time leader accounting for 79% of the aggregate TRP of the weekday prime time shows featuring in the top 100 Hindi cable and satellite shows. When the Company's repeat programmes were telecast during the afternoon time-slots, it commanded 52% of the total aggregate TRP of the weekday non-prime shows, featuring in the top 100 Hindi C&S shows.

Channel wise revenues

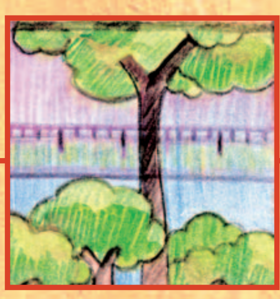
In the entertainment content business, success is defined by an ability to customise programmes for different channels and audiences. This is precisely what the Company has done over the years: produced programmes for Star Plus, Sony, Zee TV, Sahara, Gemini TV and Udaya TV. The Company's channel-wise revenues were as follows:

Language wise programming matrix (in hours and revenue in Rs/lacs)

Language	2006-07		2005-06	
	Revenues	Programming hours	Revenues	Programming hours
Hindi	29269.81	1061	23616.24	1085
Telugu	774.09	128	1171.58	215.50
Kannada	807.96	360	1174.54	424
Malayalam	424.93	173	587.47	258.50
Tamil	448.93	98	376.40	130
Total	**31725.72**	**1820**	**26926.22**	**2113**

Channel-wise programming mix (in hours and revenue in Rs/lacs)

Channel	2006-07		2005-06	
	Revenues	Programming hours	Revenues	Programming hours
Major satellite channels (Hindi)	29269.81	1061	23499.24	1067.50
Gemini TV	774.09	128	1171.58	215.50
Udaya TV	753.78	270	1162.27	384
Surya TV	424.93	173	587.47	258.50
Sun TV	448.93	98	376.40	130
Doordarshan	54.18	90	129.27	57.50
Total	**31725.72**	**1820**	**26926.22**	**2113**



Financial review

2006-07 vs 2005-06

- Turnover increased by 13% from Rs. 28037 lacs in 2005-06 to Rs. 31747 lacs in 2006-07
- EBDIT margin increased by 26% from Rs. 10236 lacs in 2005-06 to Rs. 12899 lacs in 2006-07
- Profit before tax increased by 34% from Rs. 8798 lacs in 2005-06 to Rs. 11774 lacs in 2006-07
- Profit after tax increased by 34% from Rs. 5942 lacs in 2005-06 to Rs. 7943 lacs in 2006-07

Margins

The PAT margin of the Company increased from 21% in 2005-06 to 25% in 2006-07 despite a two per cent increase in the production cost. EBIDTA as a proportion of the total income increased to 39% in 2006-07, despite an increase in total expenditure.

	06-07	05-06	04-05
EBIDTA margin (%)	40.63	36.51	36.75
Cash profit margin (%)	40.63	36.49	36.65
Pre-tax profit margin (%)	37.09	31.38	31.70
PAT margin (%)	25.02	21.19	20.99

Surplus management

A proportion of resources were reinvested to acquire new studios, props and equipment with the objective to strengthen the Company's competitive edge.

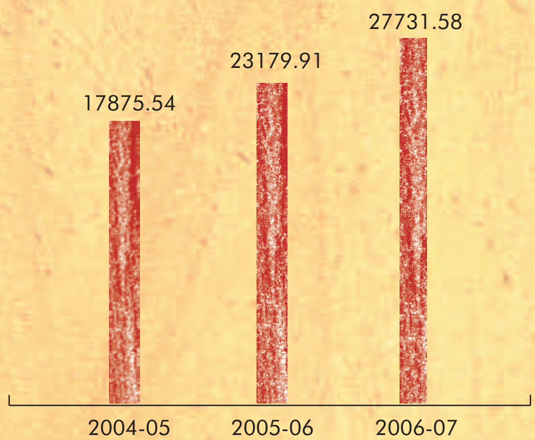
Since the amount generated as a surplus from the business was considerably higher than what the Company needed to reinvest, the free-float of resources increased. Balaji invested this free-float in relatively safe financial instruments guided by a prioritised need for safety, liquidity and income.

Capital employed

The average capital employed by the Company grew 19.64% in absolute terms over 2005-06 to Rs. 27731.58 lacs largely on account of the increased surplus. The ROCE increased from 44.15% in 2005-06 to 46.51% in 2006-07.

The capital-output ratio decreased from 1.25 in 2005-06 to 1.18 in 2006-07. Working capital as a proportion of turnover increased from 18.3% in 2005-06 to 27% in 2006-07.

Average capital employed (Rs./lacs)



Revenues

The Company's operational income increased 13% from Rs. 28037 lacs in 2005-06 to Rs. 31747 lacs in 2006-07, largely on account of an increase in content realisations.

Split: The revenue-wise distribution between commissioned and sponsored programming in 2006-07 was as follows:

Rs./ lacs

Programming	2006-07	2005-06
Commissioned	29269.81	23499.24
Sponsored	2495.91	3426.98

Balaji continued to focus on the commissioned category, deriving 92% of turnover in 2006-07 from this segment, 600 basis points higher than the corresponding figure in 2005-06. Even as turnover increased, the Company de-risked the major part of its revenues and ventured to make sponsored content only in those languages and channels where it was virtually assured of advertising support.

The sponsored category (mainly regional content) generated a revenue of Rs. 2459.90 lacs in 2006-07 as against Rs. 3456.15 lacs in 2005-06, a decline that resulted mainly due to Balaji's shift to a more de-risked revenue model.

Customers: The Company launched 3 new shows on Star Plus, 1 show on Zoom TV and 1 show each on Surya TV and Sun TV, while 4 shows on Star Plus, 1 show on Star One, 2 showns on Sony TV, 1 show on Zoom TV, 1 show on Zee TV, 2 shows on Surya TV, 1 show on Doordarshan, 1 show on Sun TV and a show on Udaya TV were discontinued during the year.

Overheads

In the production of entertainment software, a budgeting discipline at the Company was responsible for a strict control on costs. The Company's budgeting discipline comprised the following priorities:

Profit centre: Each programme was appraised as a profit centre; costs, compared with the budgeted target across every episode, comprised artiste, location, prop and people expenses, to enable the Company to take holistic and specific perspectives.

Project life cycle management: The budgetary discipline comprised a holistic perspective of shooting schedules, scene-wise artiste requirements, ongoing shooting progress and final product delivery – before shooting commenced.

Checks and balances: Non-budgeted expenses needed verification prior to sanction and disbursement, an effective check and balance.

Audit: The Company's actual expenses were compared with the budget through a supervisory audit function, enabling deviations to be corrected in the shortest possible time.

In quantum terms, the Company's total expenditure increased 4% to Rs. 20914 lacs in 2006-07 as against Rs. 20108 lacs in 2005-06. This was in line with growth in the Company's business, mainly on account of the launch of four new serials.

Improved employee benefits and incentivisation enhanced productivity. The employee cost, as a proportion of total income, increased from 2.48% in 2005-06 to 3.54% in 2006-07, mainly on account of an increase in Directors' remuneration.

Gross block

As a progressive organization, the Company continued to invest in its gross block, marked by state-of-the-art equipment and infrastructure.

Gross block increased from Rs. 6695.15 lacs in 2005-06 to Rs. 7767.94 lacs in 2006-07 as the Company invested over Rs. 1241.49 lacs in production / post-production equipment and new state-of-the art studios. The Company's depreciation continued to decline by over 32% on a y-o-y basis as some of the sets were extensively depreciated, while there was a marginal four percent increase on a q-o-q basis because the Company invested close to Rs. 110.83 lacs in post-production equipment.

Over the years, the Company invested in the following items of infrastructure:

Captive sets: This enabled the Company to produce sets in-house and save the cost of hire; it enabled the Company to enhance the quality of sets in line with varied episode and scene requirements; it enabled the

Company to re-use sets whenever required with marginal alterations, resulting in a progressive decline in production costs.

Captive equipment: The Company de-risked itself from a dependence on vendor equipment with a captive investment in sophisticated digital equivalents (lights, sound recording and other technical equipment).

Captive post-production facilities: The Company invested in two state-of-the-art post-production suites, which not only accelerated the conversion of recorded material into episodes but also enhanced the flexibility to make an ongoing review of the produced content with the objective of revision and improvement.

Investments

The Company's investments increased from Rs. 16238 lacs on 31st March 2006 to Rs. 17876 lacs on 31st March 2007. The Company invested its surplus funds in liquid debt funds to preserve capital, liquidate at will and generate a fair return on investments. The Company, as a matter of policy, did not invest in risky financial instruments. The Company's income from investments was Rs. 345 lacs in 2006-07 compared to Rs. 289 lacs in 2005-06. 'Other income' as a proportion of the Company's revenues stood at 3%.

Debtors

The Company's terms of trade strengthened during the year under review. Receivables declined from 83 days in 2005-06 (equivalent to days of income) to 80 days in 2006-07. This improvement was a vindication of the Company's decision to work only with credible customer channels enjoying a strong revenue and business model as well a reflection of the buoyancy in industry earnings as a whole.

Inventories

The Company's inventory of programmes declined from 23 days in 2005-06 to 8 days in 2006-07.

Loans and advances

Loans and advances increased from Rs. 1704 lacs in 2005-06 to Rs. 4300 lacs in 2006-07, comprising lease deposits for offices and studios. These loans and advances were considered good and related to the Company's business.

A minute's glance at how Balaji performed in 2006-07

Production

- 1820 hours of programming in 2006-07
- Six new programmes launched

Realisations

- 25% increase in commissioned programme realizations per hour from Rs. 22.01 lacs to Rs. 27.60 lacs
- Sponsored realisations at Rs. 3.24 lacs per hour

Public response

- Presence of more than 40 of its programmes in the top 100 across Hindi cable and satellite channels
- Leading television software producer with more than 40% of the aggregate TRPs of top 150 Hindi cable and satellite (C&S) shows

Performance

- 13.08% increase in revenues from Rs. 28037 lacs in 2005-06 to Rs. 31747 lacs in 2006-07
- 27.67% increase in operating profit from Rs. 9366 lacs in 2005-06 to Rs. 11958 lacs in 2006-07
- 33.82% increase in profit before tax from Rs. 8798 lacs in 2005-06 to Rs. 11774 lacs in 2006-07
- 33.67% increase in profit after tax from Rs. 5942 lacs in 2005-06 to Rs. 7943 lacs in 2006-07

Corporate

- Formed a wholly owned subsidiary called Balaji Motion Pictures Limited for the film-related business.
- Six additional state-of-the-art studios added to the existing infrastructure, totalling 32
- Investment of Rs. 1131 lacs in two state-of-the-art studios in Mumbai
- Market capitalization at Rs. 82654 lacs
- Dividend at the rate of 175% (Rs. 3.50 per share) for the year
- Formed 100% owned subsidiary at Sharjah for the production of tele-serials

Ratios

Financial Performance Ratios	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Other income / total income (%)	2.88	3.01	2.45	3.33	0.80
Cost of production / net sales (%)	50.24	55.79	54.07	41.82	42.65
Overheads / total income (%)	11.74	10.48	11.41	9.20	6.65
PBDT / total income (%)	39.46	35.39	35.75	50.36	50.55
Depreciation / total income (%)	3.54	5.11	4.95	4.34	2.28
Tax / PBT (%)	32.37	33.81	33.45	31.97	35.38
Net profit / total income (%)	24.30	20.56	20.48	30.04	30.63
Cash profit / total income (%)	39.46	35.39	35.75	50.36	50.55
RONW (PAT / net worth) (%)	26.11	23.72	19.38	38.38	53.94
RONW (PAT / average net worth) (%)	28.64	25.63	23.10	44.18	66.9
ROCE (PBDIT / average capital employed) (%)	46.51	44.15	40.45	74.09	110.49
ROCE (PBDIT / capital employed) (%)	42.41	40.86	33.92	64.35	89.08
Capital output ratio (Total income/ average capital employed)	1.18	1.25	1.13	1.47	2.18
Total income to gross block	4.21	4.32	3.61	4.21	5.35
Total income to working capital	3.77	5.63	2.91	4.44	5.94

Balance sheet ratios	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Debtors turnover (days)	80.00	82.00	86.00	77.00	55.00
Inventory turnover (days)	8.00	15.00	44.00	15.00	9.00
Current ratio	3.39	1.90	3.43	3.12	2.63
Quick ratio	3.20	1.69	2.59	2.75	2.39
Cash and equivalents / total assets (%)	59.93	66.12	53.33	51.39	45.60
Asset turnover (total income / total assets)	1.06	1.13	0.92	1.23	1.71

Growth ratios	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Growth in total income (%)	13.08	43.32	9.35	-1.60	65.72
Growth in net sales (%)	13.23	42.50	10.35	-4.12	68.59
Growth in PBDIT (%)	26.03	41.56	-22.18	-2.01	107.67
Growth in PAT (%)	33.68	43.87	-25.46	-3.48	97.87
Growth in cash flow (%)	26.08	41.88	-22.37	-1.97	107.72

Per share data ratios	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Earnings (less extraordinary income)	12.23	9.15	7.61	10.76	11.15
Cash earnings (Rs)	19.78	15.69	11.06	18.04	18.4
Dividend (Rs)	3.50	3.00	16.00	3.00	3.00
Book value (Rs)	46.65	38.42	32.69	28.03	20.67

Shareholder-related statistics	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Dividend per share (%)	175.00	150.00	800.00	150.00	150.00
Dividend payout ratio (%)	28.63	32.8	166.11	27.88	26.91
Price / earnings	10.37	20.21	11.69	7.85	4.94
Price / cash earnings	6.41	11.78	8.05	4.68	2.99
Price / book value (year end)	3.54	6.28	3.55	3.10	2.74
Growth in market capitalisation (%)	-31.43	107.70	33.40	53.41	-32.71

Margins	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
EBDITA (%)	40.63	36.51	36.75	52.11	50.99
Cash profit margin (%)	40.63	36.49	36.65	52.10	50.96
Pre tax profit margin (%)	37.09	31.38	31.70	47.76	48.68
Pat margin (%)	25.02	21.19	20.99	31.08	30.87

Value-addition	Mar-07	Mar-06	Mar-05	Mar-04	Mar-03
Gross income	317.47	280.37	196.75	178.30	185.96
Add : Other income	9.41	8.69	4.94	6.15	1.49
Corporate output	326.88	289.06	201.69	184.45	187.45
Less: Cost of production	159.50	156.41	106.38	74.57	79.31
Administrative and other expenses	38.39	30.30	23.01	16.97	13.32
Gross value added	128.99	102.35	72.30	92.91	94.82
Less: Depreciation	11.25	14.33	9.74	7.74	4.24
Net Value added	117.74	88.02	62.56	85.17	90.58
Growth %	33.77	40.70	-26.55	-5.97	103.12
To taxes (incl. dividend tax)	41.31	32.49	31.63	29.20	33.02
To creditors (interest)	0	0.04	0.19	0.02	0.06
To investors (dividend)	22.82	19.56	82.43	15.45	15.45
To the Company (retained earnings)	53.61	35.97	-51.50	40.52	42.11

How we manage risks in a creative business

1 Audience attrition risk

Implication
With programme and channel proliferation, viewership fragmentation is a reality, which could impact the Company's fortunes.

Mitigation
The Company feels that the appeal of mass entertainment is unlikely to wane. The family drama orientated shows continues to do well and are holding on to top positions in ratings despite launch of various reality based shows on prime time band by the channels. The Company is closely monitoring the audience reactions and has taken steps to revitalize the shows as and when required.

2 Stagnation risk

Implication
There is a limit to the number of channels a content provider can service and the prime-time slots available in each. So there may not be significant upward room for Balaji's revenues.

Mitigation
The Company believes that there is still untapped potential for its shows during afternoon and on weekend slots. The Company is also optimistic of the robust growth coming out of a number of vernacular Indian languages and formats.

3 Debt risk

Implication
In the entertainment content business, any direct dependence on debt could discourage risk-taking and hence, growth prospects.

Mitigation
Over the years, Balaji has consciously remained debt-free, reinforcing its net worth with internal accruals and equity. The Company has sufficient cash and liquid investments to take care of its immediate expansion plans.

4 Customer concentration risk

Implication
Balaji's business revolves around the supply of content for selected television channels, reducing its bargaining strength should channel popularity decline.

Mitigation
The Company works only with leading television broadcasters, enjoying a transparent remuneration structure. Even as Star accounted for 83% of the Company's revenues in 2006-07, the Company is in negotiations with other leading broadcasters for employing new time bands.

5 Language risk

Implication
More than 90% of Balaji's revenues are derived from a single language, a visible over-dependence.

Mitigation
Hindi is the second most widely spoken language in the world. On the one hand, it is the unifying language of the second most populous country in the world; on the other, it remains the most visible link across the vast Indian expatriate population. Therefore, a large presence in Hindi programming reflects a long-term business de-risking. Even as the Company enjoys deep and stable strengths in the language domain, it is extending its footprint across other Indian languages as well with its newly planned regional channel.

6 Creative risk

Implication

Public preference can be fickle. There is no guarantee that Balaji's content may continue to remain popular over the long-term.

Mitigation

The Company has progressively de-risked from such an eventuality, however plausible it may appear. For instance, its production of mass entertainment has revolved around several contemporary themes. Ekta Kapoor, the conceptual head, developed a second creative tier, responsible for the sustainable management of the programme after the initial few episodes have been navigated by the creative head. As a result, much of the creative input is being delegated more aggressively than ever before.

7 Competition risk

Implication

A growing presence of entertainment content providers may intensify competition leading to a probable decline in realisations.

Mitigation

In the business of entertainment content, what each company delivers is a differentiated product. As a result, the realisation that a company commands is influenced entirely by the audience response as measured in the TRPs. This unambiguous measure represents the biggest competition. Besides, the industry is an open market and Balaji's customer channels are at liberty to commission programmes from various vendors. The fact that the Company continues to be the preferred vendor reflects its competence. As proof, realization per hour in the commissioned category increased by 23% to Rs. 27.60 lacs in 2006-07.

8 Technology risk

Implication

Technology evolution can compel companies to replace their legacy equipment at a high cost. This can potentially affect the Company, considering that had gross block of Rs. 2218.22 lacs in production, post-production and allied equipment as on 31st March 2007.

Mitigation

The Company prudently invested in digital and state-of-the-art production and post-production equipment (Rs. 110.83 lacs in 2006-07), the Company has continuously invested in this facilities over the years and thus negated the risk of technology.

9 Artiste and people attrition risk

Implication

The Company encourages team-work across its employees, comprising key artistes and professionals. Any attrition in this team could affect serial quality, viewership and the TRPs.

Mitigation

Over the years, the Company entered into contracts with its team members, ensuring stability. The remuneration structure, too, is among the best in the industry. Balaji hedged itself by encouraging non-artiste-centric scripts. This helped it protect viewership in the event of unexpected attrition. The Company possesses a professional working environment, encouraging innovative job-content, performance-oriented appraisal system, fast-growth possibilities, hands-on training, adequate empowerment and multi-level succession planning. As a result, attrition was way below the average industry standards.

Board of Directors

Jeetendra Kapoor

Balaji Telefilms Chairman since 1st February 2000. Commenced his film career as a junior actor with the legendary filmmaker V. Shantaram. Performed in more than 200 films and received several awards. Core expertise: Rich network of relationships with various television channels, artistes, directors and writers. (P, N) Chairman of Shareholders' Committee and member of the Board's Audit and Remuneration Committee(s).

Shobha Kapoor

Balaji Telefilms Director since 10th November 1994. Appointed as the Managing Director and CEO on 10th November 2004. Responsible for the Company's administration and production. Considered among the few Indian television producers with a successful track-record in a young industry. Core expertise: Diversification strategy and internal audit. (P, E) Member of the Board's Shareholders' Committee.

Ekta Kapoor

Balaji Telefilms Director since 10th November 1994. Appointed the Company's Creative Director on 10th November 2004. Heads the Company's creative division. Commenced her career as a Producer and Creative Director at 19. Her contribution comprises entertainment landmarks in India. Selected one of Asia's most powerful communicators by the Asia Week magazine. Core expertise: Concept building, script design and creative conversion. (P, E) Member of the Board's Shareholders' Committee.

Akshay Chudasama

Balaji Telefilms Director since 17th July 2000. Possesses rich expertise in the creation of joint ventures, commercial/ contractual transaction structuring and documentation. Core expertise: Corporate laws, mergers and acquisitions, consumer protections, insurance sector privatisation, dispute resolution as well as internet and cyber laws. (N,I) Chairman of the Remuneration Committee and member of the Board's Audit Committee.

Dhruv Kaji

Balaji Telefilms Director since 2nd September 2000. A chartered accountant with 25 years experience. Financial advisor and management consultant, with major expertise in strategic planning. Was associated with Raymond Ltd as Finance Director and Pinesworth Holding Ltd (Singapore) as the Executive Director. Core expertise: Evaluation and guidance in understanding business projects in India and abroad. (N,I) Chairman of the Audit Committee and member of the Board's Remuneration Committee.

Pradeep Kumar Sarda

Balaji Telefilms Director since 17th May 2004. Chairman of the Sarda Group of Industries Chairman of the Governing Board of Ecole Mondiale World School, Mumbai. Core expertise: Paper, engineering files, construction and real estate industries. (N,I) Member of the Board's Audit and Remuneration Committees.

Tusshar Kapoor

Balaji Telefilms Director since 23rd January 2004. A management graduate from the University of Michigan. Core expertise: Relevant experience of the film industry. (P,E)

Paul Aiello

Balaji Telefilms' Director since 20th October 2006. Chief Executive Officer of STAR since March 2007. Joined the Star Group as President in July 2006. Prior to STAR, Paul worked for Morgan Stanley for nine years. Paul has a Ph.D in Economics from the University of Cambridge and a B.A. in Economics and International Relations from the University of Notre Dame, Indiana. Core expertise: Developing strategic and business directions; and overseeing overall corporate functions. (N,NI)

John Yu Leung Lau

Balaji Telefilms Director since 24th January 2005. Oversees all financial matters at STAR, including corporate strategy, management and financial reporting, internal audit, treasury and tax. Heads the business development division. Member of the Board of Directors of 137 companies incorporated outside India, like ESPN, STAR Sports, Phoenix Satellite Television and China Network Systems. Core expertise: Identifying and developing growth opportunities. Member of the Board's Audit and Remuneration Committees. (N, NI)

P= Promoter; E= Executive; N= Non-Executive; I= Independent, NI – Non-Independent

Directors' report

Your Directors take pleasure in presenting the Thirteenth Annual Report and Audited Statement of Accounts of the Company for the year ended 31st March 2007.

Financial results

(Rs. in lacs)

Particulars	2006-07	2005-06
Total income	32687.74	28906.57
Profit before interest, depreciation and tax	12898.99	10235.74
Less: Interest and financial charges	0.42	4.64
Less: Depreciation	1124.75	1432.88
Profit before tax	11773.82	8798.22
Less: Provision for tax	3811.00	2975.20
Less: Provision for deferred income tax	20.00	(119.19)
Profit after tax	7942.82	5942.21
Add: Excess provision for tax in earlier years	29.38	22.07
Add: Balance brought forward from previous year	6389.65	3250.28
Appropriations		
Disposable profits	14361.85	9214.56
Proposed dividend	-	1956.31
Interim dividend	2282.37	-
Dividend tax	320.10	274.37
Transfer to general reserve	794.29	594.23
Balance carried to balance sheet	10965.09	6389.65

Results of operations

The Company's performance during the year under review has been commendable. The revenues of the Company increased to Rs. 32687.74 lacs from last year's Rs. 28906.57 lacs, registering a 13.08% growth, while the operating profit was up by 27.67% from Rs. 9366.32 lacs to Rs. 11957.93 lacs. The Company's profit after tax rose to Rs. 7942.82 lacs from Rs. 5942.21 lacs, representing a growth of 33.67% over 2005-06.

A detailed discussion on the business performance is presented in the management discussion and analysis section of the report.

During the year the Company formed a wholly owned subsidiary, M/s. Balaji Motion Pictures Limited, for undertaking films venture. Its first co-production *Shootout at Lokhandwala* to be released on 25th May 2007.

Also, Balaji Telefilms FZE, a wholly owned overseas subsidiary of the Company was incorporated in Sharjah and is ready to launch its first TV show titled Khwaish by end-June 2007.

The Company has entered into a joint venture with STAR for the launch of channels in regional languages other than Hindi. Balaji will acquire 49% equity in the venture, which includes existing STAR group channel Vijay, with an initial investment of approximately Rs. 6000 lacs. The launch of a new Telugu channel is planned for September 2007.

Dividend

The Directors recommended the interim dividend of Rs. 3.50 per share (175% on a par value of Rs. 2 per share) paid to shareholders in March 2007 as the final dividend for the year ended 31st March 2007. The total payout stands at Rs. 2282.37 lacs.

Directors

Mr. Paul Aiello has been appointed as Additional Director with effect from 20th October 2006 as nominee director of Asian Broadcasting FZ LLC, after Ms. Michelle Guthrie resigned as nominee Director of the Company.

Mr. Tusshar Kapoor and Mr. John Lau retire from the Board by rotation and being eligible, offers themselves for re-appointment.

Auditors

The Mumbai-based M/s. Deloitte, Haskins and Sells, Chartered Accountants, and M/s. Snehal & Associates, Chartered Accountants – the joint auditors of the Company – retire at the ensuing Annual General Meeting. Being eligible, they have offered themselves for reappointment and have also confirmed their eligibility and willingness to be reinstated. They have also certified that if they are appointed as auditors for 2007-08, their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

Particulars of employees

Particulars of employees, as required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, are set out as under:

Name/ Designation	Gross Remuneration (Rs. in lacs)	Qualification	Experience in years	Date of commencement of employment	Age	Last employment held
Shobha Kapoor, Managing Director	391.57	NA	13	10.11.1994	58	NA
Ekta Kapoor, Creative Director	391.57	NA	13	10.11.1994	32	NA

Note:1. The gross remuneration comprises salary, commission, allowances, performance fees, Company's contribution to provident fund and taxable value of other perquisites.

2. The nature of employment of Ms. Shobha Kapoor and Ms. Ekta Kapoor is contractual and terminable by 12 months' notice for each.

3. Ms. Shobha Kapoor and Ms. Ekta Kapoor are related to each other.

Conservation of energy and technology absorption

The Company is not engaged in manufacturing activities and as such, particulars relating to the conservation of energy and technology and absorption are not applicable. Adequate measures are being taken to conserve energy in studios, post-production facilities, etc.

Foreign exchange earnings and outgo

The Company's foreign exchange earnings for the year under review stands at Rs. 26459.79 lacs and the outgo Rs. 99.05 lacs. The outgo includes Rs. 15.82 lacs that was spent towards capital goods as given in point 15 in Schedule 16 (Statement of Significant Accounting Policies and Notes forming part of accounts) of this report.

Fixed deposits

The Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

Corporate governance

Pursuant to Clause 49 of the Listing Agreement with stock exchanges, a separate section titled Corporate Governance has been included in this report.

Directors' responsibility statement

The Directors confirm that:

- In the preparation of the annual accounts, the applicable accounting standards have been followed.
- 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 fair view of the state of affairs of the Company for that period.
- Proper and sufficient care has been taken 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.

The Directors have prepared the annual accounts on an ongoing concern basis.

Acknowledgements

Your Directors wish to place on record their appreciation for the contribution made by the employees at all levels who, through their competence, hard work, solidarity, cooperation and support, have enabled the Company to achieve the consistent growth.

On behalf of the Board of Directors,

Place : Mumbai
Date : 16th May 2007

Jeetendra Kapoor
Chairman

Corporate governance

Balaji Telefilms Limited is committed to a strong Corporate Governance to protect stakeholder interest. The Company's compliance with the Corporate Governance Code in terms of Clause 49 of the Listing Agreement with the Stock Exchange, Mumbai and National Stock Exchange of India Limited is given below:

Company's philosophy on Corporate Governance

The Company's philosophy on Corporate Governance comprises the following:

- Ensure that quantity, quality and frequency of financial and managerial information, which management shares with the Board, places the Board members fully in control of the Company's affairs

- Ensure that the Board exercises its fiduciary responsibilities towards shareholders and creditors, thereby ensuring high accountability

- Ensure that the extent to which the information is disclosed to present and potential investors is maximised

- Ensure that the Board, the employees and all concerned are fully committed to maximising long-term value to the shareholders and the Company

Composition of the Board

The Board currently comprises nine members, of whom three are Executive directors; it has a Non-executive Chairman and Independent directors comprise one third of its strength. The Board either directly exercises its powers or functions through committees. The Board looks after policy formulation, setting goals, performance evaluation and control functions, while the Committees oversee operational issues.

Five meetings of the Board of Directors were held during the year — on May 9, July 27 and October 20 in 2006 and on January 24 and March 13 in 2007. The maximum time gap between any two meetings was not more than four calendar months. None of the Directors of the Company held committee membership of more than 10 committees, nor committee chairmanships of more than five committees across all companies in which the person was a Director.

The names of members of the Board of Directors, their attendance at Balaji Telefilms Board meetings and the number of other Directorships are set out below:

Name of the Director	Attendance Particulars		No. of Directorships and Committee Memberships / Chairmanship		
	Board Meetings	Last AGM	Other Directorships	Committee Memberships	Committee Chairmanships
Mr. Jeetendra Kapoor (P, N)	5	Present	4, +1	2	1
Ms. Shobha Kapoor (P, E)	5	Present	5, +1	1	0
Ms. Ekta Kapoor (P, E)	4	Present	3, +1	1	0
Mr. Akshay Chudasama (N, I)	5	Present	5	1	0
Mr. Dhruv Kaji (N, I)	4	Present	4, +1	2	1
Mr. Tusshar Kapoor (P,E)	3	Not Present	3, +1	0	0
Mr. Pradeep Sarda (N,I)	4	Present	20	1	0
Ms. Michelle Guthrie* (N,NI)	2	Present	NA	NA	NA
Mr. John Lau (N,NI)	4	Present	1, +146	1	0
Mr. Paul Aiello (N, A)	3	N.A.	1, +50	0	0

P = Promoter; E = Executive; N = Non-Executive; I – Independent; NI – Non-Independent; A - Additional + Directorships of foreign companies * Ceased to be Director w. e. f. 20th October, 2006.

Audit Committee

Terms of reference

The Audit Committee provides direction to the audit and risk management function in the Company and monitors the quality of internal and management audit. The responsibilities of the Audit Committee comprise overseeing the financial reporting process to ensure proper disclosure of financial statements, recommending appointment/removal of external auditors and fixing their remuneration, reviewing the annual financial statements before submission to the Board, reviewing the adequacy of internal control systems, structure and staffing of the internal audit function, reviewing the findings of internal investigations and discussing the scope of audit with external auditors.

The terms and composition of the Audit Committee conform to the requirement of Section 292A of the Companies Act, 1956.

Composition

The composition of the Audit Committee is as follows:

Chairman	:	Mr. Dhruv Kaji
Members	:	Mr. Akshay Chudasama Mr. Jeetendra Kapoor Mr. Pradeep Sarda Mr. John Lau
Secretary	:	Ms. Alpa Khandor
Invitees	:	Representatives of the Statutory Auditors and Internal Auditors Mr. Sandeep Jain, Chief Financial Officer

Meetings and attendance

The details of the meetings held during the year, and the attendance comprise the following:

Dates of meetings: 9th May, 27th July and 20th October in 2006 and 24th January in 2007.

Attendance

Name of the Director	No. of meetings attended
Mr. Dhruv Kaji	3
Mr. Akshay Chudasama	4
Mr. Jeetendra Kapoor	4
Mr. Pradeep Sarda	3
Mr. John Lau	3

The Statutory and Internal Auditors of the Company are invitees to the Audit Committee meetings. The Audit Committee holds discussions with the Statutory Auditors on 'Limited Review' of the quarterly and half yearly accounts, yearly audit of the Company's accounts and other related matters.

The Company has reappointed PSK & Associates, Chartered Accountants as Internal Auditors to review the internal control systems of the Company and to report thereon. The report of the Internal Auditors is reviewed by the Audit Committee.

Shareholders' Committee

Terms of Reference

The functions and powers of the Shareholders' Committee include approval / rejection of transfer / transmission and rematerialisation of equity shares, issue of duplicate certificates and supervising the operations of the Registrar and Transfer Agents and also maintaining investor relations and review and redressal of shareholders' / investors' grievances / complaints. The details in this respect are given in the shareholders' information section of this report.

Composition

The composition of the Shareholders' Committee is as follows:

Chairman	:	Mr. Jeetendra Kapoor
Members	:	Ms. Shobha Kapoor Ms. Ekta Kapoor
Compliance Officer /Secretary	:	Ms. Alpa Khandor

Meetings and attendance

The details of meetings held during the year, and their attendance are as follows:

Dates of meetings: 12th July, 2006 and 4th September, 2006

Attendance

Name of the Director	No. of meetings attended
Mr. Jeetendra Kapoor	2
Ms. Shobha Kapoor	2
Ms. Ekta Kapoor	2

The committee oversees share transfers and monitors investors' grievances. The committee reviewed the shareholder grievances and the share transfers for the year and expressed satisfaction with the same. The committee also noted that the shareholding in dematerialised mode stood at 99.91% as on 31st March 2007.

Remuneration Committee

Terms of Reference

The Committee is entrusted with the role and responsibilities of approving compensation packages of Managing director/Wholetime director, reviewing and approving the performance-based incentives to be paid to the Managing director/Wholetime director and reviewing and approving compensation package and incentive schemes of senior managerial personnel.

Composition

The composition of the Remuneration Committee is as follows:

Chairman : Mr. Akshay Chudasama

Members : Mr. Dhruv Kaji
Mr. Jeetendra Kapoor
Mr. Pradeep Sarda
Mr. John Lau

Secretary : Ms. Alpa Khandor

Meetings and attendance

The details of meetings held during the year, and their attendance are as follows:

Dates of meetings: 9th May, 2006 and 27th July, 2006

Attendance

Name of the Director	No. of meetings attended
Mr. Akshay Chudasama	2
Mr. Dhruv Kaji	1
Mr. Jeetendra Kapoor	2
Mr. Pradeep Sarda	1
Mr. John Lau	1

Remuneration policy and details of remuneration paid

The remuneration of the Directors is decided by the Board of Directors as per the remuneration policy of the Company within the ceiling approved by shareholders.

No fixed component and performance-linked incentives were paid or is payable to the Managing director and the Creative director for the period under review, other than the commission at the rate of 2.5% each, of the net profits of the Company computed in accordance with Section 349 of the Companies Act, 1956.

No remuneration was paid to Non-executive directors apart from Directors' sitting fees and commission at the fixed rate of 0.80% to the Chairman and 0.20% to all other Non-executive directors with a ceiling of Rs. 3 lacs each, as approved by the shareholders by postal ballot result declared on 14th November, 2006. The Non-executive directors are paid remuneration in conformance with industry standards and commensurate with their experience. Besides, the above remuneration, sitting fees and rent amounting to Rs. 14.40 lacs paid to Mr. Jeetendra Kapoor (refer to Note No. B-9 in Schedule 16 'Notes on Accounts', annexed to the financial statements of the year), there is no pecuniary transaction by the Company with Non-Executive directors.

Details of the remuneration to the Directors for the year ended 31st March, 2007

Name	Designation	Remuneration for 2006-07 (in Rs.)					No. of shares held by Non-executive directors
		Salary	Commission	Sitting fees	Employer contribution to provident fund/gratuity	Total	
Ms. Shobha Kapoor	Managing director	82,20,000	3,03,97,000	–	5,40,000	3,91,57,000	N.A.
Ms. Ekta Kapoor	Creative director	82,20,000	3,03,97,000	–	5,40,000	3,91,57,000	N.A.
Mr. Tusshar Kapoor	Director	11,04,000	–	–	72,000	11,76,000	N.A.
Mr. Jeetendra Kapoor	Non-executive Chairman	–	97,27,000	75,000	–	98,02,000	55,67,500
Mr. Akshay Chudasama	Independent director	–	3,00,000	75,000	–	3,75,000	–
Mr. Dhruv Kaji	Independent director	–	3,00,000	60,000	–	3,60,000	–
Mr. Pradeep Sarda	Independent director	–	3,00,000	60,000	–	3,60,000	–
Ms. Michelle Guthrie	Director	–	–	30,000	–	30,000	–
Mr. John Lau	Director	–	3,00,000	60,000	–	3,60,000	–
Mr. Paul Aiello	Additional director	–	3,00,000	45,000	–	3,45,000	–

The agreements with the Managing director and the Creative director are for a period of five years. The nature of employment of Ms. Shobha Kapoor and Ms. Ekta Kapoor is contractual and terminable by 12 month's notice in writing. If the tenure of the office of the Managing director or the Creative director is terminated before expiration of the agreements, the severance fees would be equivalent to the remuneration for unexpired residue of the tenure or for three years, whichever is shorter. The appointment of the Executive Director is for a period of three years and is terminable by three month's notice in writing.

Annual General Body Meetings

The details of Annual General Meetings held in the last three years are given below:

Annual General Meeting	Day, date	Time	Venue
10th meeting	Friday, 27th August, 2004	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053
11th meeting	Friday, 26th August, 2005	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053
12th meeting	Friday, 18th August, 2006	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053

Special resolutions that were put through postal ballot last year

The two special resolutions, which were passed through postal ballot, in the preceding year comprise:

1. Appointment of Raksha Entertainment Private Limited to the office or place of profit under the Company.

2. Revisions in commission payable to the Non-executive directors.

Details of voting pattern

99.86% of shares in assent and 0.14% of shares in dissent.

Person who conducted the postal ballot

Nilesh G. Shah, Company Secretary in practice.

Whether any special resolution is proposed to be conducted through postal ballot

None

Procedure of postal ballot

As per the provisions of the Companies Act, 1956 and rules made there under.

Disclosures

1. Related parties transactions

None of the Company's transactions for the related parties were in conflict with the interest of the Company. The transactions with the related parties are disclosed in Note No. B - 9 in Schedule 16 'Notes on Accounts' annexed to the financial statements of the year.

2. Compliances by the Company

The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters relating to capital markets during the last three years. No penalties or strictures were imposed on the Company by the stock exchanges, SEBI, or other statutory authorities relating to the above.

3. Although there is no formal whistleblower policy the Company takes cognisance of complaints made and suggestions given by the employees and others. Even anonymous complaints are looked into and whenever necessary, suitable corrective steps are taken. No employee of the Company has been denied access to the Audit Committee of the Company's Board of Directors.

4. The Company has laid down a code of conduct for the Directors and its senior management. The code has been posted on the Company's website. A declaration to the effect that the Directors and senior managerial personnel have adhered to the same, signed by the CEO of the Company, forms a part of this Report, which along with the Auditor's Certificate on the compliance of Clause 49 of the Listing Agreement by the Company is annexed to this report.

Re-appointment of Directors

The individual details of the Directors seeking re-appointment at the ensuing Annual General Meeting of the Company are provided in the explanatory statement accompanying the notice of Annual General Meeting.

Means of communication

The Company believes that all stakeholders should have access to adequate information, regarding the Company's position to enable them to accurately assess its future potential. In accordance with the applicable guidelines/Listing Agreement with the stock exchanges, all information which could have a material bearing on Balaji Telefilms' share price is released at the earliest.

The Company's financial results were published in Business Standard and Sakal /Navshakti (regional daily). The financial results and official news releases were displayed on the Company's web site www.balajitelefilms.com. No formal presentations were made to the institutional investors and analysts during the year under review. The Company sent a copy of its half-yearly results to each shareholder.

The financial results of the Company for each quarter were also put on the web site of Electronic Data Information and Retrieval (EDIFAR) maintained by National Informatics Centre and can also be accessed from the web site www.sebiedifar.nic.in.

Management discussion and analysis forms a part of the annual report, which is posted to the shareholders of the Company.

General shareholder information

1	**Date of book closure**	19th July 2007 to 26th July 2007 (both days inclusive)
2	**Date, time and venue of the Annual General Meeting**	26th July 2007 at 4:00 p.m. at 'Shri Bhaidas Maganlal Sabhagirha' Swami Bhaktivedanta Marg, J.V.P.D. Scheme, Vile Parle (West) Mumbai – 400056.
3	**Dividend payment**	The Board of Directors considered the interim dividend of Rs. 3.5 per share as the final dividend. The 175% interim dividend was declared and paid in March 2007.
4	**Listing on stock exchanges**	1. The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Tel: +91-22-22721233/34, Fax:+91-22-22721919/3027 (Stock code – 532382)
		2. National Stock Exchange of India Limited Exchange Plaza, 5th floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051. Tel: +91-22-26598235 / 36, Fax: +91-22-26598237/38 (Stock Code – BALAJITELE)
5	**ISIN**	INE794B01026
6	**Listing fees**	Paid for both the above stock exchanges as per listing agreements
7	**Listing on stock exchanges outside India**	Not applicable
8	**Registered office of the Company**	C-13, Balaji House, Dalia Industrial Estate, Opposite Laxmi Industries, New Link Road, Andheri (West), Mumbai – 400 053. Tel: +91-22-40698000, Fax: +91-22-40698182 Email: balaji@balajitelefilms.com Web site: www.balajitelefilms.com
9	**Share transfers in physical, communication regarding share certificates, dividends, change in address etc. may be addressed to:**	Karvy Computershare Private Limited (Company's Registrar and Transfer Agents) Unit: Balaji Telefilms Limited Plot No.17 to 24, near Image Hospital, Vittalrao Nagar, Madhapur, Hyderabad - 500 081 • Tel: +91-40-23431568, Fax: +91-40-23420814 Email: mailmanager@karvy.com

10. Share Transfer System

Shares sent for the physical transfer are registered and returned within one month from the date of receipt, if the documents are clear in all respects. The Share Transfer Committee meets as often as required. There were no share transfers in physical form during 2006-07 and no share transfer pending as on 31st March 2007.

11. Stock market data relating to shares listed in India

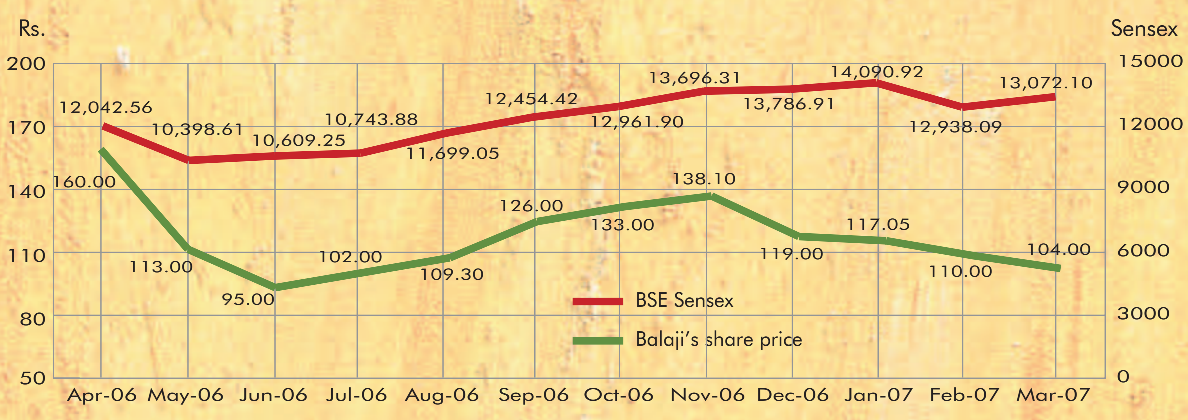
The Company's shares are listed on the Bombay Stock Exchange and the National Stock Exchange of India Limited since 22nd November 2000. The Company's market capitalisation as on 31st March, 2007 was Rs. 826.54 crores. The monthly high and low quotations as well as the volume of shares traded during the year are as below:

Month	BSE, Mumbai			National Stock Exchange		
	High	Low	No. of shares traded	High	Low	No. of shares traded
April	189.45	160.00	4,63,083	200.8	146.9	9,31,444
May	193.90	113.00	3,96,014	177.8	118	10,71,159
June	125.50	95.00	5,84,735	129.9	98	14,46,584
July	116.60	102.00	1,74,821	134	106.7	29,07,005
August	154.00	109.30	1,74,944	117	102.5	319.798
September	145.80	126.00	15,51,793	154.9	109	7,79,373
October	154.00	133.00	6,70,379	145.8	125	12,59,686
November	190.25	138.10	6,21,569	154.5	134	8,73,888
December	156.55	119.00	32,68,684	155.9	105.5	18,63,925
January	143.90	117.05	10,88,977	149.85	117.1	31,14,061
February	148.40	110.00	19,09,967	147.95	118	1,21,79,009
March	130.50	104.00	87,42,144	128.7	105.1	47,95,560

Fact sheet

Items	2005-06	2006-07
Earnings per share	9.15	12.23
EPS – Fully diluted	9.15	12.23
Dividend per share	Rs. 3	Rs. 3.50
Number of shares	6,52,10,443	6,52,10,443
Share price data (Rs.)		
High	198	200.8
Low	89.65	98
Closing	184.75	126.75

The performance of Balaji Telefilms equity share relative to the BSE Sensitive Index (Sensex)



12. Investor service — complaints/correspondence received during the year

Year ended 31st March 2007

Nature of complaints / requests	Received	Disposed
Receipt of dividend warrants for revalidation	6	6
Receipt of ib for the issue of duplicate dividend warrants	2	2
Non receipt of dividend warrants	23	23
Non receipt of annual report	3	3

The Company has responded to all the investor grievances and correspondence. There is no share transfer pending as on 31st March 2007.

13. Shareholding pattern of Balaji Telefilms as on 31st March 2007

Category	No. of shares held	Percentage of shareholding
Promoters	2,72,69,720	41.82
Bank	5,300	0.01
Indian financial institutions	6,91,062	1.06
Mutual funds and UTI	22,37,293	3.43
FIIs	84,42,768	12.95
Private corporate bodies	37,36,767	5.73
Resident individuals	51,14,508	7.84
HUFs	2,36,756	0.36
NRIs	3,35,970	0.52
FCB	1,69,48,194	25.99
Trusts	51	0.00
Clearing members	1,92,054	0.29
Grand total	6,52,10,443	100

14. Distribution of shareholding as on 31st March, 2007

Number of shares	Number of shareholders	Percent of shareholders	Amount	Percent holding
1 to 5,000	21,160	97.76	75,68,920	5.80
5,001 to 10,000	245	1.13	18,44,890	1.41
10,001 to 20,000	120	0.55	17,54,152	1.34
20,001 to 30,000	38	0.18	9,64,384	0.74
30,001 to 40,000	20	0.09	7,33,770	0.56
40,001 to 50,000	14	0.06	6,31,740	0.48
50,001 to 1,00,000	17	0.08	11,83,904	0.91
1,00,001 & above	30	0.14	11,57,39,126	88.74
Total	21,644	100.00	13,04,20,886	100.00

15. Shares under lock-in

In accordance with SEBI guidelines, no equity shares were held by promoters are subject to lock-in.

16. Dematerialisation of equity shares

The Company's shares are traded in dematerialised form only. To facilitate trading in dematerialised form there are two depositories, i.e., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL). The

Company has entered into an agreement with both these depositories. The shareholders can open account with any of the depository participants registered with any of these depositories. As on 31st March 2007 around 99.91% comprising 6,51,52,071 equity shares were in the dematerialised form.

17. Financial calendar

(tentative and subject to change)

Particulars	Date
Annual General Meeting	26th July 2007
Financial reporting for 1st quarter ending 30th June, 2007	Last week of July, 2007
Financial reporting for 2nd quarter ending 30th September, 2007	Last week of October, 2007
Financial reporting for 3rd quarter ending 31st December, 2007	Last week of January, 2008
Financial reporting for the year ended 31st March 2008 (audited)	June, 2008
Annual General Meeting for year ended 31st March 2008	August, 2008

18. Plant locations

The details of the regional offices of the Company are available on the corporate information section on the inside back cover of the report.

19. Investors' correspondence

Investors' correspondence may be addressed to:

Alpa Khandor
Company Secretary
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opposite Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053
Tel: +91-22-40698000, Fax: +91-22-40698182
Email: investor@balajitelefilms.com

Any queries relating to the financial statements of the Company should be addressed to:

Mr. Sandeep Jain
Chief Financial Officer
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opposite Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053
Tel: +91-22-40698000, Fax: +91-22-40698182
Email: sandeep.jain@balajitelefilms.com

19. Insider trading

In terms of the SEBI (Prohibition of Insider Trading) Regulations, 1992, the Company has framed Code of Conduct for dealing in equity shares of the Company.

20. Non-mandatory requirements

a. Chairman of the Board
   The Company has Non-executive Chairman, who is entitled to maintain a Chairman's office at the Company's expenses. The expenses incurred by him during the performance of his duties are reimbursed to him.

b. Remuneration Committee
   The Company has appointed a Remuneration Committee since January 2003.

c. Shareholder rights
   The Company has been sending to each shareholder, a copy of its half-yearly results, starting from the half-year ended 30th September 2001.

d. Postal ballot
   No resolutions have been proposed to be passed through postal ballot at the ensuing Annual General Meeting.

Certificate on Corporate Governance

To the members of
Balaji Telefilms Limited

We have examined the compliance of conditions of Corporate Governance by Balaji Telefilms Limited for the year ended on 31st March 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

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

For **Deloitte Haskins & Sells**
Chartered Accountants

A. Siddharth
Partner

Membership No. 31467
Mumbai, Dated: 16th May, 2007

For **Snehal & Associates**
Chartered Accountants

Snehal Shah
Proprietor

Membership No. 40016
Mumbai, Dated: 16th May, 2007

CEO declaration

I, R. Karthik, Chief Executive Officer of Balaji Telefilms Limited, based on confirmation received from all Directors and the senior management of the Company, do hereby state that all Board members and senior management personnel have affirmed compliance with the code of conduct of the Company on an annual basis.

R. Karthik
Chief Executive Officer

Mumbai, 16th May 2007

CEO/CFO certification

We, R. Karthik, Chief Executive Officer of Balaji Telefilms Limited, and Sandeep Jain, Chief Financial Officer of Balaji Telefilms Limited, do hereby certify to the Board that:

a. We have reviewed financial statements and the cash flow statement for the year 2006-07 and that to the best of our knowledge and belief:

   i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or in violation of the Company's code of conduct.

c. We accept responsibility for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

d. We have indicated to the auditors and the Audit committee

   i. significant changes in internal control over financial reporting during the year;

   ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

R. Karthik
Chief Executive Officer

Mumbai, 16th May 2007

Sandeep Jain
Chief Financial Officer

Mumbai, 16th May 2007

Financial section

Auditor's Report

To,
The Members of
Balaji Telefilms Limited

1. We have audited the attached Balance Sheet of Balaji Telefilms Limited as at 31st March 2007, the Profit and 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.

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 of India in terms of section 227(4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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 the books;

iii. the Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account;

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

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

vi. in our opinion, and to the best of our information and according to the explanations given to us, the said accounts, read 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 case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007;

b) in case of the Profit and Loss Account, of the profit for the year ended on that date; and

c) in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

(A. Siddharth)
Partner
Membership No.: 31467

Place : Mumbai
Dated : 16th May, 2007

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership No.: 40016

Place : Mumbai
Dated : 16th May, 2007

ANNEXURE TO AUDITOR'S REPORT

Re: Balaji Telefilms Limited

Referred to in Paragraph 3 of our report of even date

i) The requirements of clauses (xiii) and (xiv) of paragraph 4 of the Order are not applicable.

ii) (a) The Company has maintained proper records, showing full particulars including quantitative details and situation of its fixed assets.

b) The fixed assets have been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable having regard to the size of the Company and nature of its assets. No material discrepancies were noticed on such verification.

c) There has not been any substantial disposal of fixed assets during the year.

iii) a) The inventory (tapes) has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

b) The procedures of physical verification of inventory 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 has maintained proper records of inventories. No material discrepancies were noticed on verification.

iv) The Company has not granted/ taken loans to/ from companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956. Consequently, requirements of clauses iii(a) to iii(g) of paragraph 4 of the Order are not applicable.

v) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for the sale of films / television serials. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

vi) a) In our opinion and according to the information and explanations given to us, the particulars of contracts/arrangements that need to be entered into the Register maintained under section 301 of the Companies Act, 1956 have been entered.

b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts/arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lacs in respect of each party during the year have been made at the prices which are reasonable having regard to prevailing market prices at the relevant time.

vii) The Company has not accepted deposits from the public within the meaning of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956, where applicable and the Rules framed there under. We are informed that no Order has been passed by the Company Law Board or the Reserve Bank of India or any Court or any other Tribunal.

viii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.

ix) The maintenance of cost records has not been prescribed by the Central Government under Section 209 (1) (d) of the Companies Act, 1956.

x) a) According to the records of the Company, undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues where applicable have generally been regularly deposited with appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at 31st March, 2007 for a period of more than six months from the dates of them becoming payable.

b) According to the information and explanations given to us, there are no cases of non-deposit with appropriate authorities of disputed dues of sales tax, income tax, custom duty, wealth tax, service tax, excise duty and cess.

xi) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the financial year covered by our report and the immediately preceding financial year.

xii) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks. The Company does not have borrowings from financials institutions and has not issued debentures.

xiii) In our opinion and according to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiv) 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.

xv) The Company has not obtained term loan during the year hence the question of commenting on application thereof does not arise.

xvi) 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.

xvii) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956 during the year.

xviii) No debentures have been issued by the Company and hence the question of creating security or charge in respect thereof does not arise.

xix) During the year, the Company has not raised money by public issue(s).

xx) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For Deloitte Haskins & Sells
Chartered Accountants

(A. Siddharth)
Partner
Membership No.: 31467

Place : Mumbai
Dated : 16th May, 2007

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership No.: 40016

Place : Mumbai
Dated : 16th May, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

(Rupees in lacs)

	Schedule	31st March, 2007		31st March, 2006	
I SOURCES OF FUNDS					
1 Shareholders' funds					
A. Share capital	1	1,304.21		1,304.21	
B. Reserves and surplus	2	29,112.23		23,742.50	
			30,416.44		25,046.71
2 Deferred tax liability			477.35		457.35
Total			**30,893.79**		**25,504.06**
II. APPLICATION OF FUNDS					
1 Fixed assets					
Gross block	3	7,767.94		6,695.15	
Less: depreciation		3,809.90		3,069.59	
Net block		3,958.04		3,625.56	
Capital work in progress		382.54		507.44	
			4,340.58		4,133.00
2 Investments	4		17,875.80		16,238.59
3 Current assets, loans and advances					
A. Inventories	5	686.75		1,161.82	
B. Sundry debtors	6	6,684.33		7,369.59	
C. Cash and bank balances	7	638.03		623.41	
D. Loans and advances	8	4,299.52		1,704.78	
		12,308.63		10,859.60	
Less: Current liabilities and provisions					
A. Current liabilities	9	3,455.84		3,434.08	
B. Provisions	10	175.38		2,293.05	
		3,631.22		5,727.13	
Net current assets			8,677.41		5,132.47
Total			**30,893.79**		**25,504.06**
Significant accounting policies and notes on accounts	16				

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467
Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Managing Director)**
Ekta Kapoor **(Creative Director)**
Tusshar Kapoor **(Director)**
Pradeep Sarda **(Director)**
Dhruv Kaji **(Director)**
Akshay Chudasama **(Director)**
John Yu Leung Lau **(Director)**
Paul Aeillo **(Director)**
Alpa Khandor **(Company Secretary)**
Sandeep Jain **(Chief Financial Officer)**

Place : Mumbai
Dated : 16th May, 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

(Rupees in lacs)

	Schedule		Previous Year
INCOME			
Turnover		31,746.68	28,037.14
Other income	11	941.06	869.43
Total		**32,687.74**	**28,906.57**
EXPENDITURE			
Cost of production of television serials / feature films	12	15,949.54	15,641.27
Employee costs	13	1,157.13	717.04
Administrative and other expenses	14	2,682.08	2,312.52
Interest	15	0.42	4.64
Depreciation / Amortisation		1,124.75	1,432.88
Total		**20,913.92**	**20,108.35**
Profit Before Tax		**11,773.82**	**8,798.22**
Provision for tax			
Current tax (including Rs. 4.00 lacs (previous year Rs. 2.21 lacs) for wealth tax)		(3,740.00)	(2,948.45)
Deferred tax		(20.00)	119.19
Fringe Benefit Tax		(71.00)	(26.75)
Profit After Tax		**7,942.82**	**5,942.21**
Excess provision for tax in respect of earlier years		29.38	22.07
Balance brought forward from previous year		6,389.65	3,250.28
Amount available for Appropriations		**14,361.85**	**9,214.56**
Appropriations			
1) Interim dividend		2,282.37	–
2) Transferred to general reserve		794.29	594.23
3) Proposed dividend		–	1,956.31
4) Corporate dividend tax		320.10	274.37
BALANCE CARRIED TO BALANCE SHEET		**10,965.09**	**6,389.65**
Basic and diluted earnings per share (Refer note 11 of Schedule 16)		**12.23**	**9.15**
Significant accounting policies and notes on accounts	16		

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467
Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor
(Chairman)

Shobha Kapoor
(Managing Director)

Ekta Kapoor
(Creative Director)

Tusshar Kapoor
(Director)

Pradeep Sarda
(Director)

Dhruv Kaji
(Director)

Akshay Chudasama
(Director)

John Yu Leung Lau
(Director)

Paul Aeillo
(Director)

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

Place : Mumbai
Dated : 16th May, 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

(Rupees in lacs)

	31st March, 2007		31st March, 2006	
A Cash flow from operating activities				
Profit before tax	**11,773.82**		**8,798.22**	
Adjustments for:				
Depreciation and amortisation	1,124.75		1,432.88	
Bad debts written off	208.22		24.13	
Loss on sale/discard of fixed assets(net)	59.40		50.84	
Loss due to fire	–		168.46	
Profit on sale of long term investments (non trade) (net)	(526.38)		(217.03)	
Excess provision of earlier years written -back	(51.25)		(3.95)	
Interest expenses	0.42		4.64	
Interest/dividend income	(345.24)		(289.26)	
Operating profit before working capital changes	12,243.74		9,968.93	
Decrease/(Increase) in trade and other receivable	16.55		(1,896.97)	
Decrease in inventories	475.07		1,225.02	
Increase in trade payables	16.99		609.60	
		12,752.35		**9,906.58**
Direct taxes and fringe benefit tax paid		(3,732.74)		(3,016.14)
Net cash from operating activities (a)		**9,019.61**		**6,890.44**
B Cash flow from investing activities				
Purchase of fixed assets	(1,395.13)		(2,201.18)	
Sale of fixed assets	3.40		–	
Purchase of investments	(4,803.60)		(9,386.10)	
Sale of investments	3,861.64		4,739.14	
Investment in subsidiaries	(168.87)		–	
Loans / Advances to subsidiaries	(2,070.11)		–	
Income from investments	345.24		289.26	
Net cash (used in) investing activities(b)		**(4,227.43)**		**(6,558.88)**
C Cash flow from financing activities				
Interest paid	(0.42)		(4.64)	
Dividend paid	(4,182.67)		(3.95)	
Corporate dividend tax paid	(594.47)		–	
Net cash (used in) financing activities (c)		**(4,777.56)**		**(8.59)**
Net increase in cash and Cash equivalents) (a+b+c)		**14.62**		**322.97**
Cash and cash equivalent as at 31st March, 2006 (opening balance)	623.41		300.44	
Cash and cash equivalents as at 31st March, 2007 (closing balance)	638.03		623.41	

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467
Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor
(Chairman)

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John Yu Leung Lau
(Director)

Paul Aeillo
(Director)

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

Place : Mumbai
Dated : 16th May, 2007

SCHEDULES FORMING PART OF BALANCE SHEET

(Rupees in lacs)

	As at 31st March, 2007	As at 31st March, 2006
1 SHARE CAPITAL		
Authorised:		
75,000,000 equity shares of Rs. 2/- each	1,500.00	1,500.00
Issued, Subscribed and Paid-up		
65,210,443 equity shares of Rs. 2/- each	1,304.21	1,304.21
Note:		
6,500,000 equity shares of the original value of Rs. 10/- each were allotted as fully paid up bonus shares by capitalisation of surplus in Profit and Loss account.		
Total	**1,304.21**	**1,304.21**

2 RESERVES & SURPLUS		
Share premium account		
As per last Balance sheet	14,785.61	14,785.61
General reserve		
As per last Balance sheet	2,567.24	1,973.01
Add: Transferred from Profit and Loss account	794.29	594.23
	3,361.53	2,567.24
Surplus in Profit and Loss account	10,965.09	6,389.65
Total	**29,112.23**	**23,742.50**

3 FIXED ASSETS

	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK	
PARTICULARS	As at 1st April, 2006	Additions	Deductions	As at 31st March, 2007	Upto 31st March, 2006	For the year	On Deductions	Upto 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
Buildings	235.75	–	–	235.75	19.44	3.94	–	23.38	212.37	216.31
Plant and machinery - Computers	510.84	83.88	–	594.72	258.12	91.31	–	349.43	245.29	252.72
Plant and machinery - Others	1,602.30	26.95	5.75	1,623.50	406.89	112.63	2.46	517.06	1,106.44	1,195.41
Studios and sets	2,994.18	1,130.66	58.94	4,065.90	1,785.87	807.69	48.30	2,545.26	1,520.64	1,208.31
Vehicles	411.04	205.65	47.94	568.75	131.04	47.10	25.98	152.16	416.59	280.00
Furniture and fixtures	234.32	15.49	17.32	232.49	43.56	16.72	8.71	51.57	180.92	190.76
Computers	224.50	17.77	–	242.27	105.39	35.04	–	140.43	101.84	119.11
Office equipment	161.78	37.82	20.32	179.28	24.06	8.79	6.91	25.94	153.34	137.72
Electrical fittings	30.44	1.81	6.97	25.28	5.22	1.53	2.08	4.67	20.61	25.22
Sub Total	**6,405.15**	**1,520.03**	**157.24**	**7,767.94**	**2,779.59**	**1,124.75**	**94.44**	**3,809.90**	**3,958.04**	**3,625.56**
Intangible Assets - Tele serial rights	290.00	–	290.00	–	290.00	–	290.00	–	–	–
Grand Total	**6,695.15**	**1,520.03**	**447.24**	**7,767.94**	**3,069.59**	**1,124.75**	**384.44**	**3,809.90**	**3,958.04**	**3,625.56**
Previous Year	**5,592.80**	**1,813.58**	**711.23**	**6,695.15**	**2,128.64**	**1,432.88**	**491.93**	**3,069.59**	**3,625.56**	
Capital work in progress									382.54	507.44

SCHEDULES FORMING PART OF BALANCE SHEET

(Rupees in lacs)

	Face Value (In Rupees)	NO. OF UNITS As at 31st March, 2007	NO. OF UNITS As at 31st March, 2006	VALUE As at 31st March, 2007	VALUE As at 31st March, 2006
4 INVESTMENTS					
LONG TERM INVESTMENTS (NON TRADE)					
UNQUOTED					
EQUITY SHARES OF SUBSIDIARIES COMPANIES (FULLY PAID UP)					
Balaji Telefilms FZE	AED 150,000	1	–	18.87	–
Balaji Motion Pictures Limited	10.00	15,00,000	–	150.00	–
IN UNITS OF MUTUAL FUNDS					
Birla Cash Plus - Institutional Dividend Plan - Weekly Dividend	10.00	–	28,08,002	–	303.55
Birla Floating Rate Fund - Short Term Plan - Growth	10.00	–	38,23,637	–	412.87
Birla Fixed Term Plan Series C - Growth	10.00	–	30,00,000	–	300.00
Birla Floating Rate Fund - Short Term - IP - Growth	10.00	–	32,12,271	–	323.36
Birla FTP - Series - O - Growth	10.00	10,00,000	–	100.00	–
Birla FTP - Quarterly - Series 9 - Dividend - Payout	10.00	5,00,000	–	50.00	–
Birla FTP - Series - P - Growth	10.00	10,00,000	–	100.00	–
Chola Freedom Income Short Term Fund	10.00	–	4,35,069	–	44.44
DBS Chola FMP - Series 6 (Qtrly Plan - 3) - Dividend	10.00	10,00,000	–	100.00	–
DSP Merrill Lynch - Floating Rate Fund - Growth	10.00	–	27,21,879	–	293.13
DSP Merrill Lynch Bond Fund - Floating Rate - Weekly Dividend	10.00	–	17,21,194	–	172.69
DSP Merrill Lynch - Floating Rate - Reg - Growth	10.00	26,55,243	26,55,243	300.00	300.00
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Growth	1,000.00	49,378	49,378	500.00	500.00
Deutsche Floating Rate - Monthly Dividend Reinvest	10.00	–	10,33,178	–	105.58
DWS Fixed Term Fund - Series 10 - Growth Plan	10.00	30,00,000	–	300.00	–
DWS Fixed Term Fund - Series 14 - Growth Plan	10.00	20,00,000	–	200.00	–
DWS Fixed Term Fund - Series 16 - Institutional Plan - Growth Option	10.00	20,00,000	–	200.00	–
DWS Fixed Term Fund Series 28 - Dividend Option	10.00	30,00,000	–	300.00	–
FT MIP Plan A - Quarterly Dividend	10.00	20,91,533	19,51,866	246.11	229.79
Grindlays Cash Fund - Growth	10.00	–	18,619	–	2.18
Grindlays Super Saver Short Term Fund	10.00	–	12,783	–	1.51
Grindlays Fixed Maturity - 7th Plan B - Growth	10.00	27,67,987	30,00,000	300.00	300.00
Grindlays Floating Rate Fund - Long Term - Growth	10.00	–	18,982	–	1.95
Grindlays Floating Rate Fund - Long Term - Plan A - Monthly Dividend	10.00	–	12,17,304	–	121.80
Grindlays Floating Rate - Short Term Plan - Monthly Dividend	10.00	–	16,92,447	–	169.87
Grindlays Floating Rate Fund - Long Term - Plan B - Growth	10.00	–	10,18,887	–	105.52
Grindlays Floating Rate Fund - Short Term - Plan C - Growth	10.00	91,61,956	91,61,956	1,000.00	1,000.00
HDFC Monthly Income Plan Short Term Fund - Quarterly Dividend	10.00	23,99,885	22,55,881	245.70	230.65
HDFC Floating Rate Income Fund - Short Term Plan - Weekly Dividend	10.00	–	7,08,488	–	71.10
HDFC Cash Management Fund Savings Plan - Weekly Dividend	10.00	–	40,00,568	–	425.46
HDFC Cash Management Fund Savings Plus Plan - Weekly Dividend	10.00	–	30,18,710	–	302.61
HDFC FMP 13M March 2006 (1) - Institutional Plan - Growth	10.00	20,00,000	20,00,000	200.00	200.00
HDFC Cash Management Fund Savings Plan - Growth	10.00	–	20,58,277	–	300.00
HDFC Floating Rate Income Fund - Long Term - Growth	10.00	–	23,40,156	–	268.15
HDFC FMP 16M January 2007 (3) - Wholesale Plan Growth	10.00	10,00,000	–	100.00	–
HDFC FMP 13M June 2006 (1) - Institutional Plan - Growth	10.00	50,00,000	–	500.00	–
HDFC FMP 26M August 2006 (1) - Institutional Plan - Growth	10.00	10,00,000	–	100.00	–
HDFC Equity Fund - Dividend	10.00	5,07,692	–	200.00	–
HSBC Cash Fund - Institutional - Monthly Dividend	10.00	–	50,39,076	–	526.92
HSBC Fixed Term Series - 4 - Growth	10.00	30,00,000	30,00,000	300.00	300.00

SCHEDULES FORMING PART OF BALANCE SHEET

(Rupees in lacs)

	Face Value (In Rupees)	NO. OF UNITS As at 31st March, 2007	NO. OF UNITS As at 31st March, 2006	VALUE As at 31st March, 2007	VALUE As at 31st March, 2006
4 INVESTMENTS (Contd.)					
HSBC Floating Rate Fund - Short Term - Institutional Option - Growth	10.00	9,50,814	9,50,814	100.00	100.00
HSBC Liquid Plus - Institutional - Weekly Dividend	10.00	25,25,685	–	252.99	
HSBC Fixed Term Series 9 - Growth	10.00	30,00,000	–	300.00	–
HSBC Fixed Term Series 22 - Institutional - Growth	10.00	20,00,000	–	200.00	–
HSBC Fixed Term Series 15 - Institutional - Growth	10.00	10,00,000	–	100.00	–
ING Vysya Fixed Maturity Fund Series - XV - Growth Option	10.00	30,00,000	–	300.00	–
ING Vysya Fixed Maturity Fund Series - VII - Growth Option	10.00	30,00,000	–	300.00	–
JM Floater Fund - Short Term Plan - Growth	10.00	–	44,24,920	–	494.08
JM High Liquid - Institutional Plan - Dividend	10.00	–	10,45,841	–	105.03
JM Equity and Derivative Fund - Growth	10.00	47,45,852	29,04,062	500.00	300.00
JM Arbitrage Fund - Growth Plan	10.00	20,00,000	–	200.00	–
Kotak FMP Series 1 - Growth	10.00	–	30,00,000	–	300.00
Kotak Floater - Short Term - Monthly Dividend	10.00	–	22,29,868	–	223.07
Kotak Liquid (Institutional Premium) - Weekly Dividend	10.00	–	21,32,299	–	213.98
Kotak Floater Short Term Growth	10.00	–	29,01,829	–	317.68
Kotak FMP Series 14 - Growth	10.00	30,00,000	30,00,000	300.00	300.00
Kotak FMP Series 26 - Growth	10.00	40,00,000	–	400.00	–
Kotak Cash Plus - Dividend	10.00	20,33,220	–	206.71	–
Kotak FMP 3M Series 12 - Dividend	10.00	10,00,000	–	100.00	–
Kotak FMP 3M Series 13 - Dividend	10.00	20,00,000	–	200.00	–
Kotak FMP 3M Series 14 - Dividend	10.00	30,00,000	–	300.00	–
Kotak FMP 6M Series 2 - Dividend	10.00	5,12,460	–	51.25	–
Kotak FMP 15M Series 1 - Growth	10.00	20,00,000	–	200.00	–
Kotak FMP 16M Series 1 - Growth	10.00	10,00,000	–	100.00	–
Kotak Wealth Builder	10.00	10,00,000	–	100.00	–
Lotus India FMP - 3 Months - Series IV - Institutional Dividend	10.00	10,00,000	–	100.00	–
LIC MF FMP Series 20 - 14 Months Growth Plan	10.00	10,00,000	–	100.00	–
LIC MF FMP Series 15 - 13 Months Growth Plan	10.00	15,00,000	–	150.00	–
Magnum Debt Fund Series - 15 Months (Jan 05) - Growth Option	10.00	–	30,00,000	–	300.00
Principal Income Fund - Short Term - Institutional Plan - Growth	10.00	17,50,011	17,50,011	200.00	200.00
Principal Fixed Maturity Plan (FMP - 31) - Series III - Institutional Growth Plan - Nov.06	10.00	10,00,000	–	100.00	–
Principal Fixed Maturity Plan - II (FMP 29) 460 Days Plan - Aug.06	10.00	20,00,000	–	200.00	–
Principal Fixed Maturity Plan (FMP 27) 385 Days Series II	10.00	30,00,000	–	300.00	–
Prudential I.C.I.C.I. Flexible Income Plan - Dividend	10.00	4,20,214	3,95,659	46.48	43.90
Prudential I.C.I.C.I. Floating Rate Plan - Dividend	10.00	–	41,49,711	–	416.94
Prudential I.C.I.C.I. FMP Plan 1 - Growth	10.00	–	30,00,000	–	300.00
Prudential I.C.I.C.I. Short Term Plan - Cumulative Option	10.00	27,37,958	27,37,958	350.00	350.00
Prudential I.C.I.C.I. Long Term Floating Rate Plan A - Growth	10.00	–	15,42,618	–	164.22
Prudential I.C.I.C.I. Floating Rate Plan A - Growth	10.00	–	19,733	–	2.03
Prudential I.C.I.C.I. FMP Series - XII - Institutional 1 Dividend	10.00	21,09,092	–	210.91	–
Prudential I.C.I.C.I. FMP Series 30 - 13 Months Plan - Institutional - Growth	10.00	40,00,000	–	400.00	–
Prudential I.C.I.C.I. FMP Series 34 - 16 Months Plan - Institutional - Growth	10.00	20,00,000	–	200.00	–
Prudential I.C.I.C.I. Equity & Derivatives Fund - Income Optimiser - Retail Dividend	10.00	10,00,000	–	100.00	–
Reliance Floating Rate Fund - Monthly Dividend	10.00	–	10,64,023	–	107.09
Reliance Fixed Tenor Fund Plan B - Growth Plan	10.00	–	30,00,000	–	300.00
Reliance Floating Rate Fund - Growth	10.00	–	40,13,441	–	416.34

SCHEDULES FORMING PART OF BALANCE SHEET

(Rupees in lacs)

	Face Value (In Rupees)	No. of Units As at 31st March, 2007	No. of Units As at 31st March, 2006	Value As at 31st March, 2007	Value As at 31st March, 2006
4 INVESTMENTS (Contd.)					
Reliance Equity Opportunities Fund - Dividend Plan	10.00	5,99,085	–	113.57	–
Reliance Monthly Interval Fund - Series I - Retail Dividend Plan	10.00	20,00,000	–	200.00	–
Reliance Fixed Horizon Fund - Institutional Plan C - Series I - Institutional Growth Plan	10.00	50,00,000	–	500.00	–
Reliance Fixed Horizon Fund I - Annual Plan - Series III - Retail Growth Plan	10.00	20,00,000	–	200.00	–
Reliance Fixed Horizon Fund II - Annual Plan - Series III - Institutional Growth Plan	10.00	20,00,000	–	200.00	–
Reliance Fixed Horizon Fund II - Annual Plan - Series IV - Institutional Growth Plan	10.00	10,00,000	–	100.00	–
Reliance Fixed Horizon Fund I - Quarterly Plan - Series IV - Dividend Option	10.00	30,00,000	–	300.00	–
Reliance Fixed Horizon Fund I - Retail Plan-Annual Plan-Series I -Retail Growth Plan	10.00	20,00,000	–	200.00	–
Reliance Fixed Tenor Fund Plan - B - Growth Option	10.00	30,00,000	–	300.00	–
SBI Debt Fund Series - 13 Months (November 06) - Growth	10.00	10,00,000	–	100.00	–
Standard Chartered Fixed Maturity 10th Plan - Growth	10.00	20,00,000	–	200.00	–
Standard Chartered Fixed Maturity Plan - Quarterly Series 3 - Dividend	10.00	10,14,760	–	101.48	
Standard Chartered Liquid Manager - Plus - Monthly Dividend	1,000.00	31,738	–	317.71	
Sundaram BNP Paribas Fixed Term Plan Series XXI - 16 Months - Growth	10.00	10,00,000	–	100.00	
Tata Monthly Income Fund - Dividend	10.00	–	28,31,183	–	325.85
Tata Fixed Horizon Series 1 - Plan A (371 days) - Growth	10.00	–	35,00,000	–	350.00
Tata Floating Rate Short Term Institutional Plan - Growth	10.00	56,92,492	56,92,492	600.00	600.00
Tata Fixed Horizon Fund Series 7 - Scheme B - Growth - Institutional Plan	10.00	10,00,000	–	100.00	–
Templeton Treasury Management Account	1,000.00	–	7,065	–	106.89
Templeton Floating Rate Income Fund - Long Term Plan - Growth	–	–	–	–	–
Templeton Floating Rate Income Fund - Long Term Plan - Dividend	10.00	–	34,04,962	–	348.73
Templeton India Short Term Income Plan Growth	1,000.00	11,283	44,234	150.00	550.00
UTI - Fixed Term Income Fund - Series 1 - Plan 18 - Q3 Growth Plan	10.00	30,00,000	30,00,000	300.00	300.00
UTI Floating Rate Fund - Short Term Plan - Growth	10.00	–	54,29,541	–	600.00
UTI Liquid Cash Plan - Institutional - Daily Income	1,000.00	–	27,419	–	276.35
UTI - Fixed Maturity Plan (YFMP/0906) Growth Plan	10.00	20,00,000	–	200.00	–
UTI Fixed Maturity Plan Yearly Series YFMP/1006 Growth Plan	10.00	10,00,000	–	100.00	–
UTI Fixed Term Income Fund Series II - Plan 16 - Institutional Growth Plan	10.00	30,00,000	–	300.00	–
UTI Fixed Maturity Plan (HFMP / 0207) - Dividend Plan - Re-investment	10.00	10,07,424	–	100.74	–
UTI Fixed Term Income Fund - Series II Plan 16 - Institutional Growth Plan	10.00	10,00,000	–	100.00	–
UTI - Fixed Maturity Plan Yearly Series / 0606 Growth Plan	10.00	30,00,000	–	300.00	–
				17,362.52	**15,725.31**
Quoted					
6.75% Tax free Bonds of Unit Trust of India of Rs.100/- each		5,00,000	5,00,000	513.28	513.28
Total				**17,875.80**	**16,238.59**

(Rupees in lacs)

Notes	Cost	Market Value
1 Aggregate of Quoted Invetsments	513.28	498.00
Previous Year	513.28	508.45
Aggregate of Unquoted investments	17,362.52	
Previous Year	15,725.31	
Total	**17,875.80**	
Previous year	16,238.59	

SCHEDULES FORMING PART OF BALANCE SHEET

2 Details of investments purchased and sold during the year *(Rupees in lacs)*

Particulars	Nos.	Cost
Birla Cash Plus - Institutional Plan Weekly Dividend	36,97,370	400.00
Birla Cash Plus - Institutional Plan Weekly Dividend	13,87,296	150.00
Birla Cash Plus - Institutional Plan Weekly Dividend	1,47,329	15.92
DSP Merrill Lynch Floating Rate Fund Weekly - Dividend	28,386	2.85
DSPML Liquidity Fund - Institutional - Monthly Dividend	53,330	533.41
DSPML Liquidity Fund - Institutional - Monthly Dividend	14,989	150.00
DSPML Short Term Fund - Dividend	9,66,482	101.40
Duetsche Floating Rate Fund Regular Plan - Mtly Dividend	39,354	4.03
Dws Fixed Term Fund - Series 13 - Dividend - 90 Days	5,00,000	50.00
DWS Fixed term Fund - Series 22 - Dividend	30,00,000	300.00
DWS Money Plus Fund - Regular Plan - Weekly Dividend	20,20,221	202.88
Grindlays Floating Rate Fund - Long Term Plan A Monthly div - Dividend	7,917	0.79
Grindlays Floating Rate Fund - Short Term - Monthly Dividend	12,851	1.29
HDFC Cash Mgmt Fund - Saving Plan - Weekly Dividend	46,892	4.98
HDFC Cash Mgmt Fund - Saving Plus Plan - Weekly Dividend	29,92,071	300.00
HDFC Cash Mgmt Fund - Saving Plus Plan - Weekly Dividend	3,25,507	32.60
HDFC Floating Rate Income Fund - ST Plan Div. - Dividend	12,342	1.25
HSBC Cash Fund - Institutional - Monthly Dividend	39,856	4.17
JM High Liquidity - Institutional - Weekly Dividend	7,440	0.75
Kotak Fixed Maturity Plan - 3M Series 7 - Dividend	30,00,000	300.00
Kotak Fixed Maturity Plan 3M Series 4 - Dividend	5,00,000	50.00
Kotak Floater Short Term Monthly Dividend	27,597	2.76
Kotak Liquid-Institutional Premium Plan - Weekly Dividend	48,144	4.83
Kotak Liquid-Institutional Premium Plan - Weekly Dividend	29,86,709	300.00
Pru ICICI Floating Rate Plan -Dividend	37,403	3.76
Reliance Fixed Horizon Fund - I - Qly Plan B - Series III - Dividend	10,00,000	100.00
Standard Chartered Fixed Maturity 7th Plan	30,00,000	300.00
Tata Monthly Income Fund - Monthly Dividend	99,587	11.46
Templeton Treasury Management Account - Daily Dividend	64	0.97
UTI Liquid Cash Plan Institutional - Daily Income Option	506	5.16

Details of investments purchased and sold during the previous Year *(Rupees in lacs)*

Particulars	Nos.	Cost
ING Vysya Liquid Fund - Weekly Dividend	32,687	3.53
Deutsche Insta Cash Plus Fund - Weekly Dividend	1,19,240	12.10
Principal Cash Management Fund - Money At Call - Daily Dividend	295	0.03
Prudential I.C.I.C.I. Liquid Plan - Dividend	26,10,255	309.09

(Rupees in lacs)

	As at 31st March, 2007	As at 31st March, 2006
5 INVENTORIES		
Television serials / feature films	669.49	1,141.05
Tapes	17.26	20.77
Total	**686.75**	**1,161.82**

6 SUNDRY DEBTORS		
(Unsecured and considered good)		
Debts outstanding for a period exceeding six months	180.88	531.50
Other debts	6,503.45	6,838.09
Total	**6,684.33**	**7,369.59**

SCHEDULES FORMING PART OF BALANCE SHEET

(Rupees in lacs)

	As at 31st March, 2007	As at 31st March, 2006
7 CASH AND BANK BALANCES		
Cash on hand	44.18	37.30
Balances with scheduled banks		
In Current accounts	296.91	515.35
In Fixed deposits accounts (over which bank has a lien)	296.94	70.76
	593.85	586.11
Total	**638.03**	**623.41**

8 LOANS AND ADVANCES		
(Unsecured, considered good)		
Loans /Advances to Subsidiary Companies	2,070.11	–
Advances recoverable in cash or in kind or for value to be received	706.41	385.15
Advance tax (net)	524.73	491.20
Fringe benefit tax (net)	30.60	–
Deposits *	967.67	828.43
Total	**4,299.52**	**1,704.78**
Notes :		
1. *: Includes deposits given to directors for property taken on lease from them	730.00	630.00
2. Maximum amount outstanding at any time during the year for above deposits	730.00	630.00
3. Loans / Advances to Subsidiaries		
- Balaji Telefilms FZE	359.46	–
Maximum balance outstanding at any time during the year	359.46	–
- Balaji Motion Pictures Limited	1,710.65	–
Maximum balance outstanding at any time during the year	1,710.65	–

9 CURRENT LIABILITIES		
Sundry creditors		
(i) Total outstanding dues to small scale industrial undertakings	–	–
(ii) Total outstanding dues of creditors other than small scale industrial undertakings	3,182.66	2,800.25
	3,182.66	2,800.25
Advances received from customers	8.03	55.30
Other liabilities	265.15	578.53
Total	**3,455.84**	**3,434.08**

10 PROVISIONS		
Provision for tax (net)	175.38	62.37
Proposed dividend	–	1,956.31
Corporate dividend tax	–	274.37
Total	**175.38**	**2,293.05**

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

(Rupees in lacs)

	31.03.2007		Previous Year	
11 OTHER INCOME				
Interest on:				
Fixed deposits with banks (gross)	22.01		18.41	
(Tax deducted at source Rs. 5.26 lacs (previous year Rs. 4.13 lacs))				
Tax Free Bonds	33.75		33.75	
Income tax refund	29.23		6.48	
Staff loan	1.05		–	
		86.04		58.64
Insurance Claim Received		10.73		344.66
Dividend on long term investments (non trade)		259.20		230.62
Excess provision of earlier years written back		51.25		3.95
Profit on sale of long term investments (non trade) (net)		526.38		217.03
Bad debts recovered		0.90		–
Miscellaneous income		6.56		14.53
Total		**941.06**		**869.43**

12 COST OF PRODUCTION OF TELEVISION SERIALS / FEATURE FILMS				
Opening stock of television serials / feature films and tapes		1,161.82		2,386.84
Add: Cost of production				
Purchase of costumes and dresses	574.89		301.19	
Purchase of tapes	363.70		373.33	
Payments to and provision for artistes, junior artistes, dubbing artistes fees	4,059.51		3,788.07	
Payments to and provision for directors, technicians and other fees	4,817.09		4,380.75	
Shooting and location expenses	1,781.93		1,445.99	
Telecasting fees	956.12		1,452.46	
Uplinking charges / Special dispatch charges	449.27		162.64	
Food and refreshments	397.12		355.83	
Set properties and equipment hire charges	1,134.87		1,000.19	
Other production expenses	1,258.53		1,155.80	
		15,793.03		14,416.25
		16,954.85		16,803.09
Less: Cost of feature films transferred to subsidiary company (Refer note 8 of Schedule 16)		318.56		–
Less: Closing stock of television serials / feature films and tapes		686.75		1,161.82
Total		**15,949.54**		**15,641.27**

13 EMPLOYEE COSTS				
Salaries, wages and bonus		1,100.45		683.28
Contribution to Provident and Other funds		33.54		15.32
Staff welfare expenses		23.14		18.44
Total		**1,157.13**		**717.04**

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

(Rupees in lacs)

	31.03.07	Previous Year
14 ADMINISTRATIVE AND OTHER EXPENSES		
Electricity and water charges	316.23	273.45
Lease rent	456.10	309.12
Rates and taxes	19.10	21.14
Insurance	216.37	217.79
Repairs and maintenance		
- Building	2.56	–
- Plant and machinery	21.49	18.99
- Others	207.05	155.84
Travelling and conveyance expenses	182.11	146.31
Legal and professional charges	374.90	363.87
Communication charges	58.78	63.32
Loss on sale / discard of fixed assets (net)	59.40	50.84
Loss due to fire at studio	–	168.46
Donations	13.10	18.28
Bad debts written off	208.22	24.13
Director's sitting fees	4.05	2.20
Advertisement and sales promotion expenses	19.36	53.92
Miscellaneous expenses	523.26	424.86
Total	**2,682.08**	**2,312.52**

15 INTEREST		
On cash credit account	0.42	4.64
Total	**0.42**	**4.64**

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting

The financial statements are prepared under the historical cost convention on accrual basis of accounting and in accordance with generally accepted accounting principles in India.

Fixed assets

Fixed assets are stated at cost of acquisition or construction. They are stated at historical cost less accumulated depreciation and impairment loss, if any.

Depreciation

Depreciation on fixed assets is provided on straight line basis in accordance with provisions of the Companies Act, 1956 at the rates and in the manner specified in schedule XIV of this Act except for the following fixed assets where higher rates of depreciation have been applied:

Studios and sets @ 33.33%

Plant and machinery - Computers @ 16.21%

Investments

Current investments are carried at lower of cost and fair value. Long term investments are carried at cost. However, when there is a decline, other than temporary, the carrying amount is reduced to recognise the decline.

Inventories

Items of inventory are valued at lower of cost and net realisable value. Cost is determined on the following basis:

Tapes	:	First In First Out
Television serials/ feature films	:	Average cost
Unamortised cost of feature films	:	The cost of feature films is amortised in the ratio of current revenue to expected total revenue. At the end of each accounting period, balance unamortised cost is compared with net expected revenue. If net expected revenue is less than unamortised cost, the same is written down to net expected revenue.

Revenue recognition

a) In respect of sponsored programmes, revenue is recognised as and when the relevant episodes of the programmes are telecast.

b) In respect of commissioned programmes, revenue is recognised as and when the relevant episodes of the programmes are delivered to the channels.

c) In respect of films, revenue is recognised in accordance with the terms and conditions of the agreements on or after the first theatrical release of the films.

In all other cases, revenue (income) is recognised when no significant uncertainty as to its determination or realisation exists.

Retirement benefits

Provident fund

Contribution as required under the statute / rules is made to the Government Provident fund.

Gratuity

The trustees of Balaji Telefilms Limited Employees Group Gratuity - Cum - Life Assurance (Cash Accumulation) Scheme have taken a Group Gratuity cum Life Assurance Policy from the Life Insurance Corporation of India. Provision is made on the basis of contribution payable in respect of the aforesaid policy.

Foreign currency transactions

Transactions in foreign currency are recorded at the original rates of exchange in force at the time the transactions are effected. At the year end, monetary items denominated in foreign currency are reported using the closing rates of exchange. Exchange differences arising thereon and on realisation / payment of foreign exchange are accounted in the relevant year as income or expense.

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. All other borrowing costs are charged to revenue.

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

Taxes on income

Tax expense comprises both current and deferred tax at the applicable enacted / substantively enacted rates. Current tax represents the amount of income tax payable/ recoverable in respect of the taxable income/ loss for the reporting period. Deferred tax represents the effect of timing differences between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods.

Provisions and Contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of a past event, for which it is probable that cash outflow will be required and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are disclosed when the Company has a possible or present obligation where it is not probable that an outflow of resources will be required to settle it. Contingent assets are neither recognized nor disclosed.

Impairment loss

Impairment loss is provided to the extent the carrying amount of assets exceeds their recoverable amounts. Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the 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. Net selling price is the amount obtainable from sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Intangible assets

Intangible assets are stated at cost of acquisition less amortisation. Teleserial rights are amortised on a straight-line basis over the period of the agreement(s).

B. NOTES ON ACCOUNTS

(Rupees in lacs)

		Previous Year
1. Estimated amount of contracts remaining to be executed on capital account and not provided for :	286.84	–
2. The Company has applied to the Office of the Commissioner of Sales- tax, Mumbai, to ascertain whether the Company's sales are liable to tax under the Sales- tax laws. The matter is still pending before the Sales -tax authority.		
3. Managerial remuneration under section 198 of the Companies Act, 1956 to Directors (including to the Managing Director)		
Salary	175.44	115.44
Commission	720.21	458.24
Contribution to Provident Fund	11.52	7.92
Total	**907.17**	**581.60**

4. Computation of net profit in accordance with section 198 read with section 309 of the Companies Act, 1956 :

(Rupees in lacs)

			Previous Year	
Profit before tax		**11773.82**		**8798.22**
Add:				
Managerial remuneration	907.17		581.60	
Directors sitting fees	4.05		2.20	
		911.22		583.80
		12685.04		**9382.02**
Less: Profit on sale of long term investments (non-trade) (net)	526.38		217.03	
		526.38		217.03
Net Profit for the year		**12158.66**		**9164.99**
Commission @ 2.50% each to the Executive Directors (previous year 2% each)		607.94		366.60
Commission @ 0.80% (previous year 0.90%) to the Chairman		97.27		82.48
Commission @ 0.20% to other Non-Executive Directors, restricted to Rs. 3 lacs each (previous year 0.10%, restricted to Rs. 2 lacs each)		15.00		9.16

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

5. **Payment to auditors** *(Rupees in lacs)*

		Previous Year
a) as auditors	13.00	13.00
b) as advisor, or in any other capacity, in respect of - taxation matters	2.50	–
c) in any other manner (certification work, etc)	4.00	4.50
d) as expenses	0.15	0.08
e) for service tax	–	0.04
Total	**19.65**	**17.62**

6. Cash credit facility with a bank is secured by hypothecation of the current assets (both present and future) and library assets of the Company.

7. The Company has not received any intimation from 'suppliers' regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under this Act have not been given.

8. During the year, the Company incorporated a wholly owned subsidiary company under the name 'Balaji Motion Pictures Limited' for undertaking all film related production and distribution business. As per the deed of Assignment with the subsidiary company, the Company has transferred the following assets / interests relating to unlaunched film projects at book value to the subsidiary company:

i) Advances to co-productions (including interest there in)	Rs. 1392.09 Lacs
ii) Unlaunched film Inventory	Rs. 318.56 Lacs

9. **Related Party Disclosures**

(a) Name of related parties and description of relationship.

Name of the Related Party	**Relationship**
Mr. Jeetendra Kapoor	Key management person
Mrs. Shobha Kapoor	Key management person
Ms. Ekta Kapoor	Key management person
Mr. Tusshar Kapoor	Key management person
Mrs. Nirmala Sood	Relative of key management personnel
Mr. Ramesh Sippy	Relative of key management personnel
Mr. Rakesh Sippy	Relative of key management personnel
Screentestindia.com Pvt.Ltd B.R.A Corporation	Enterprises over which key management personnel and their relatives are able to exercise significant influence.
Balaji Telefilms FZE (w.e.f. 3rd September 2006) Balaji Motion Pictures Limited (w.e.f. 9th March, 2007)	Subsidiary Company (Control exists)

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

(b) Details of Transactions with related parties during the year *(Rupees in lacs)*

Nature of Transactions	1		2		3		4		Total	
		Previous year		Previous year		Previous year		Previous year		Previous Year
Advances given										
Balaji Telefilms FZE	359.46	–	–	–	–	–	–	–	359.46	–
Assets transferred (Refer note 8)										
Balaji Motion Pictures Limited	1710.65	–	–	–	–	–	–	–	1710.65	–
Directors sitting fees										
Mr. Jeetendra Kapoor	–	–	–	–	0.75	0.50	–	–	0.75	0.50
Rent										
Mr. Jeetendra Kapoor	–	–	–	–	14.40	7.20	–	–	14.40	7.20
Mrs. Shobha Kapoor	–	–	–	–	124.98	65.52	–	–	124.98	65.52
Mr. Tusshar Kapoor	–	–	–	–	2.40	2.40	–	–	2.40	2.40
Others	–	–	–	0.60	0.18	0.72	–	–	0.18	1.32
Recovery and payment of artistes registration fees										
M/s. Screentestindia.com Pvt. Ltd.	–	–	–	1.43	–	–	–	–	–	1.43
Remuneration										
Mrs. Shobha Kapoor	–	–	–	–	391.57	239.10	–	–	391.57	239.10
Ms. Ekta Kapoor	–	–	–	–	391.57	239.10	–	–	391.57	239.10
Mr. Jeetendra Kapoor	–	–	–	–	97.27	82.48	–	–	97.27	82.48
Others	–	–	–	–	11.76	11.76	1.20	–	12.96	11.76
Dividend paid										
Mrs. Shobha Kapoor	–	–	–	–	645.78	–	–	–	645.78	–
Ms. Ekta Kapoor	–	–	–	–	632.26	–	–	–	632.26	–
Mr. Jeetendra Kapoor	–	–	–	–	361.89	–	–	–	361.89	–
Mr. Tusshar Kapoor	–	–	–	–	131.97	–	–	–	131.97	–
Others	–	–	–	–	–	–	0.62	–	0.62	–
Amount payable as at 31st March, 2007										
Mrs. Shobha Kapoor	–	–	–	–	311.28	187.95	–	–	311.28	187.95
Ms. Ekta Kapoor	–	–	–	–	311.28	187.95	–	–	311.28	187.95
Mr. Jeetendra Kapoor	–	–	–	–	97.27	82.48	–	–	97.27	82.48
Others	–	–	–	0.47	0.98	1.15	0.10	0.10	1.08	1.72
Amount receivable (Deposits for lease property) as at 31st March,2007										
Mrs. Shobha Kapoor	–	–	–	–	330.00	222.50	–	–	330.00	222.50
Mr. Jeetendra Kapoor	–	–	–	–	306.60	300.00	–	–	306.60	300.00
Mr. Tusshar Kapoor	–	–	–	–	100.00	100.00	–	–	100.00	100.00
Balaji Telefilms FZE	359.46	–	–	–	–	–	–	–	359.46	–
Balaji Motion Pictures Limited	1710.65	–	–	–	–	–	–	–	1710.65	–
Others	–	–	–	–	–	7.50	–	–	–	7.50

Note:

There are no provision for doubtful debts, amounts written off or written back during the year for debts due from or due to related parties.

1. Subsidiary companies
2. Enterprises over which key management personnel and their relatives are able to exercise significant influence
3. Key management personnel
4. Relatives of key management personnel

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

10. Segment Information:

(A) Information about primary segments

The Company has considered business segment as the primary segment for disclosure. The reportable business segments are as under:

(a) Commissioned Programmes : Income from sale of television serials to channels

(b) Sponsored Programmes : Income from telecasting of television serials on channels

(c) Other : Includes feature films

	Commissioned Programmes		Sponsored Programmes		Others		Total	
		Previous year		Previous year		Previous year		Previous year
REVENUE								
From External Customers	29,286.78	23,499.23	2,459.90	3,456.15	–	1,081.76	31,746.68	28,037.14
Add: Inter Segment sale	–	–	–	–	–	–	–	–
Total Revenue	**29,286.78**	**23,499.23**	**2,459.90**	**3,456.15**	**–**	**1,081.76**	**31,746.68**	**28,037.14**
RESULTS								
Segment result	14,105.38	11,100.44	562.32	693.94	(46.25)	(391.48)	14,621.45	11,402.90
Unallocable Corporate Expenses	–	–	–	–	–	–	(3,718.83)	(3,106.33)
Operating Profit							10,902.62	8,296.57
Interest Expense	–	–					(0.42)	(4.64)
Interest income/Dividend on Long-Term Investments	–	–					345.24	289.26
Profit on sale of Long-Term Investments (non trade)	–	–					526.38	217.03
Provision for tax							(3,831.00)	(2,856.01)
Profit after tax							7,942.82	5,942.21
OTHER INFORMATION:								
Segment assets	10,061.10	10,316.56	1,177.30	1,290.34	–	469.23	11,238.40	12,076.13
Unallocated Corporate assets							23,286.61	19,155.06
Total assets							**34,525.01**	**31,231.19**
Segment liabilities	2,277.68	2,451.85	187.37	104.29	19.69	82.32	2,484.74	2,638.46
Unallocated Corporate liabilities							1,623.83	3,546.02
Total Liabilities							**4,108.57**	**6,184.48**
Capital expenditure	1,116.59	1,818.61					1,116.59	1,818.61
Depreciation	1,008.69	1,049.54					1,008.69	1,049.54
Significant Non cash expenses other than depreciation								
Loss on sale / discard of fixed assets (net)	–	–					59.40	50.84
Loss due to fire at Studio	–	–					–	168.46
Bad debts written off	–	–					208.22	24.13

(B) Segment information for secondary segment reporting (by geographical segment)

The Company has two reportable geographical segments based on location of customers:

i) Revenue from customers within India - local

ii) Revenue from customers Outside India - export

	Outside India		Within India		Total	
		Previous year		Previous year		Previous year
A) Revenue (Turnover)	26,459.79	144.56	5,286.89	27,892.58	31,746.68	28,037.14
B) Carrying amount of assets	5,158.30	19.18	8,227.44	13,858.81	13,385.74	13,877.99
C) Addition to fixed assets	–	–	1,395.13	2,201.08	1,395.13	2,201.08

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

11. **Earning Per Share**

Earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of equity shares outstanding during the year as under:

		Previous Year
Net profit after tax as per the Profit and Loss account -(Rs. in lacs)	7,942.82	5,942.21
Excess provision for tax in respect of earlier years -(Rs. in lacs)	29.38	22.07
(A) Profit for the year attributable to equity share holders-(Rs. in lacs)	7,972.20	5,964.28
(B) Weighted average number of equity shares outstanding during the year (Nos.)	65,210,443	65,210,443
(C) Earnings per share - Basic and diluted (Rs.)	12.23	9.15
(D) Nominal value of shares (Rs.)	2	2

12. **Components of deferred Tax Assets / (Liabilities)** *(Rupees in lacs)*

	As at 31st March, 2007	As at 31st March, 2006
Difference between the books and the written down values of fixed assets	(477.35)	(457.35)
Deferred tax asset/ (liability) Total	**(477.35)**	**(457.35)**

13. **Lease Transactions:**

a) Future lease rentals in respect of fixed assets taken on non-cancellable operating lease basis are as follows:

		Previous Year
1) Amount due within 1year	74.40	14.40
2) Amount due later than 1year and not later than 5 years	199.80	21.60
3) Amount due later than 5 years	–	–
	274.20	**36.00**

b) Amount of lease rentals charged to the profit and loss account in respect of operating leases is Rs. 456.10 lacs (previous year Rs. 309.12 lacs)

14. **Employee Benefits**

a) The Company has made contribution to Government Provident Fund in respect of all employees along with contribution collected from these employees. The Contribution is based on certain portion of the employees' salary. Amount recognized as expense during the year is Rs. 28.16 Lacs.

b) The Trustees of Balaji Telefilms Limited Employees Group Gratuity- Cum-Life Assurance (Cash Accumulation) Scheme have taken a Group Gratuity cum Life Assurance Policy from the Life Insurance Corporation of India to fund a gratuity liability (post employment benefit plan) of the Company. The amount of premium/ contribution made to this plan during the year and recognized as expense is Rs. 5.37 Lacs

15. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of part II of schedule VI of the Companies Act, 1956 (to the extent applicable)

		Previous Year
a. Expenditure in foreign currency		
Travelling expenses	83.23	139.66
b. Earnings in foreign exchange:		
Export of television software/ serials	26459.79	79.16
c. CIF value of imports		
Capital goods	15.82	–

SCHEDULES FORMING PART OF ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

d. Amount remitted during the financial year in foreign currency on account of dividends:

The Company has not made any remittance in foreign currency on account of dividend and does not have information as to the extent to which remittances in foreign currency on account of dividends have been made by or on behalf of non-resident shareholders. The particulars of dividend paid to non-resident shareholders are as under

Amount of Dividend *(Rupees in lacs)*

Year to which dividend relates		Previous Year
a) Final dividend for the financial year 2005-2006	1956.31	–
b) Interim dividend for the financial year 2006–2007	2282.37	–

Number of non-resident shareholders

Year to which dividend relates		
a) Final dividend for the financial year 2005-2006	196	–
b) Interim dividend for the financial year 2006-2007	411	–

Number of equity shares held by them on which dividend was due

Year to which dividend relates		
a) Final dividend for the financial year 2005-2006	149697	–
b) Interim dividend for the financial year 2006-2007	317944	–

Amount remitted (net of tax) to banks or power holders in India of the non-resident shareholders

Year to which dividend relates		
a) Final dividend for the financial year 2005-2006	4.49	–
b) Interim dividend for the financial year 2006–2007	11.13	–

16. Figures of the previous year have been regrouped wherever necessary to correspond with those of the current year.

Signatures to Schedule 1 to 16

As per our attached report of even date

For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor
(Chairman)

Shobha Kapoor
(Managing Director)

Ekta Kapoor
(Creative Director)

Tusshar Kapoor
(Director)

Pradeep Sarda
(Director)

Dhruv Kaji
(Director)

Akshay Chudasama
(Director)

John Yu Leung Lau
(Director)

Paul Aeillo
(Director)

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

Place : Mumbai
Dated : 16th May, 2007

BALANCE SHEET ABSTRACT

Information pursuant to the provisions of Part IV of the Schedule VI to the Companies Act, 1956

I. Registration Details

Registration No. 11–82802

State Code 11

Balance Sheet Date 31 03 2007

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

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

III. Position of Mobilisation and deployment of Funds (Amount in Rs. thousands)

Total Assets	Total Liabilities
3041644	3041644

Sources of Funds

Paid-up Capital	Reserves and Surplus
130421	2911223
Secured Loans	Unsecured Loans
NIL	NIL

Application of Funds

Net Fixed Assets	Investments
434058	1787580
Net Current Assets	Miscellaneous Expenditure
867741	NIL
Accumulated Losses	Deferred Tax Liability (Net)
NIL	(47735)

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

Turnover	Total Expenditure
3268774	2091392
Profit/(Loss) before Tax	Profit/(Loss) after Tax
1177382	794282
Earning per Share (in Rs.)	Interim Dividend rate (%)
12.23	175

REFER NOTE NO. 9 OF SCHEDULES 16

V. Generic names of principal products of the Company

Item Code No. Not Applicable

Product Description Television Serials

CONSOLIDATED AUDITORS' REPORT

To,
The Board of Directors
Balaji Telefilms Limited

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

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of a subsidiary, whose financial statements reflect total assets (net) of Rs.359.95 lacs as at 31st March 2007, total revenue of Rs. Nil and cash outflow amounting to Rs. 267.80 lacs for the year then ended. This financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.

We report that the consolidated financial statements have been prepared by the Balaji Telefilms Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements.

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

(a) in the case of the consolidated balance sheet, of the state of affairs of the Balaji Telefilms Limited Group as at 31st March 2007;

(b) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and

(c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

(A.Siddharth)
Partner
Membership No.: 31467

Place : Mumbai
Dated : 16th May, 2007

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership No.: 40016

Place : Mumbai
Dated : 16th May, 2007

CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES AS AT 31ST MARCH, 2007

(Rupees in lacs)

	Schedule	31st March, 2007	
I. SOURCES OF FUNDS			
1 Shareholders' funds			
A. Share capital	1	1,304.21	
B. Reserves and surplus	2	29,094.48	
			30,398.69
2 Deferred tax liability (net)			477.30
Total			**30,875.99**
II. APPLICATION OF FUNDS			
1 Fixed assets			
Gross block	3	7,864.37	
Less :- depreciation		3,813.78	
Net block		4,050.59	
Capital work in progress		382.54	
			4,433.13
2 Investments	4		17,706.93
3 Current assets, loans and advances			
A. Inventories	5	1,253.92	
B. Sundry debtors	6	6,959.33	
C. Cash and bank balances	7	787.03	
D. Loans and advances	8	3,642.50	
		12,642.78	
Less :- Current liabilities and provisions			
A. Current liabilities	9	3,723.46	
B. Provisions	10	183.39	
		3,906.85	
Net current assets			8,735.93
Total			**30,875.99**
Significant accounting policies and notes on accounts	16		

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467
Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Managing Director)**
Ekta Kapoor **(Creative Director)**

Tusshar Kapoor **(Director)**
Akshay Chudasama **(Director)**

Pradeep Sarda **(Director)**
Dhruv Kaji **(Director)**

Paul Aeillo **(Director)**
John Yu Leung Lau **(Director)**

Alpa Khandor **(Company Secretary)**
Sandeep Jain **(Chief Financial Officer)**

Place : Mumbai
Dated : 16th May, 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES
FOR THE YEAR ENDED 31ST MARCH, 2007

(Rupees in lacs)

	Schedule	31st March, 2007
INCOME		
Turnover		32,021.68
Other income	11	943.94
Total		**32,965.62**
EXPENDITURE		
Purchase of Satellite right		250.00
Cost of production of television serials / feature films	12	15,945.75
Employee costs	13	1,157.71
Administrative and other expenses	14	2,719.07
Interest	15	0.42
Depreciation / Amortisation		1,128.63
Total		**21,201.58**
Profit Before Tax		**11,764.04**
Provision for tax		
Current tax (including Rs. 4.00 lacs for wealth tax)		(3,748.02)
Deferred tax		(19.95)
Fringe Benefit Tax		(71.00)
Profit After Tax		**7,925.07**
Excess provision for tax in respect of earlier years		29.38
Balance brought forward from previous year		6,389.65
Amount available for Appropriations		**14,344.10**
Appropriations		
1) Interim dividend		2,282.37
2) Transferred to general reserve		794.29
3) Corporate dividend tax		320.10
Balance Carried to Balance Sheet		**10,947.34**
Basic and diluted earnings per share (Refer note 9 of Schedule 16)		12.20
Significant accounting policies and notes on accounts	16	

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467
Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor
(Chairman)

Shobha Kapoor
(Managing Director)

Ekta Kapoor
(Creative Director)

Tusshar Kapoor
(Director)

Akshay Chudasama
(Director)

Pradeep Sarda
(Director)

Dhruv Kaji
(Director)

Paul Aeillo
(Director)

John Yu Leung Lau
(Director)

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

Place : Mumbai
Dated : 16th May, 2007

CONSOLIDATED CASH FLOW STATEMENT OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES
FOR THE YEAR ENDED 31ST MARCH, 2007

(Rupees in lacs)

		31st March, 2007	
A	**Cash flow from operating activities**		
	Profit before extra-ordinary item and tax	**11,764.04**	
	Adjustments for:		
	Depreciation and amortisation	1,128.63	
	Bad debts written off	208.22	
	Loss on sale / discard of fixed assets(net)	59.40	
	Profit on sale of long term investments (non trade) (net)	(526.38)	
	Excess provision of earlier years written -back	(51.25)	
	Interest expenses	0.42	
	Interest/dividend income	(345.24)	
	Operating profit before working capital changes	12,237.84	
	(Increase) in trade and other receivable	(1,671.55)	
	Decrease / (increase) in inventories	(92.10)	
	Increase in trade payables	284.61	
			10,758.80
	Direct taxes paid		(3,732.74)
	Net cash from operating activities (a)		**7,026.06**
B	**Cash flow from investing activities**		
	Purchase of fixed assets	(1,491.56)	
	Sale of fixed assets	3.40	
	Purchase of investments	(4,803.60)	
	Sale of investments	3,861.64	
	Income from investments	345.24	
	Net cash (used in) investing activities(b)		**(2,084.88)**
C	**Cash flow from financing activities**		
	Interest paid	(0.42)	
	Dividend paid	(4,182.67)	
	Corporate dividend tax paid	(594.47)	
	Net cash from / (used in) financing activities (c)		**(4,777.56)**
	Net increase in cash and Cash equivalents) (a+b+c)		**163.62**
	Cash and cash equivalent as at 31st March, 2006 (opening balance)	623.41	
	Cash and cash equivalents as at 31st March, 2007 (closing balance)	787.03	

As per our attached report of even date
For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor
(Chairman)

Shobha Kapoor
(Managing Director)

Ekta Kapoor
(Creative Director)

Tusshar Kapoor
(Director)

Akshay Chudasama
(Director)

Pradeep Sarda
(Director)

Dhruv Kaji
(Director)

Paul Aeillo
(Director)

John Yu Leung Lau
(Director)

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

Place : Mumbai
Dated : 16th May, 2007

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	31st March, 2007
1 SHARE CAPITAL	
Authorised:	
75,000,000 equity shares of Rs. 2/- each	1,500.00
Issued, Subscribed and Paid-up	
65,210,443 equity shares of Rs. 2/- each	1,304.21
Note:	
6,500,000 equity shares of the original value of Rs. 10/- each were allotted as fully paid up bonus shares by capitalisation of surplus in Profit and Loss account.	
Total	**1,304.21**

2 RESERVES & SURPLUS

Share premium account	
As per last Balance sheet	14,785.61
General reserve	
As per last Balance sheet	2,567.24
Add: Transfered from Profit and Loss account	794.29
	3,361.53
Surplus in Profit and Loss account	10,947.34
Total	**29,094.48**

3 FIXED ASSETS

	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK
PARTICULARS	As at 1st April, 2006	Additions	Deductions	As at 31st March, 2007	Upto 31st March, 2006	For the year	On Deductions	Upto 31st March, 2007	As at 31st March, 2007
Buildings	235.75	–	–	235.75	19.44	3.94	–	23.38	212.37
Plant and machinery - Computers	510.84	83.88	–	594.72	258.12	91.31	–	349.43	245.29
Plant and machinery - Others	1,602.30	57.43	5.75	1,653.98	406.89	113.88	2.46	518.31	1,135.67
Studios and sets	2,994.18	1,189.53	58.94	4,124.77	1,785.87	810.11	48.30	2,547.68	1,577.09
Vehicles	411.04	205.65	47.94	568.75	131.04	47.10	25.98	152.16	416.59
Furniture and fixtures	234.32	20.66	17.32	237.66	43.56	16.85	8.71	51.70	185.96
Computers	224.50	19.68	–	244.18	105.39	35.12	–	140.51	103.67
Office equipment	161.78	37.82	20.32	179.28	24.06	8.79	6.91	25.94	153.34
Electrical fittings	30.44	1.81	6.97	25.28	5.22	1.53	2.08	4.67	20.61
Sub Total	**6,405.15**	**1,616.46**	**157.24**	**7,864.37**	**2,779.59**	**1,128.63**	**94.44**	**3,813.78**	**4,050.59**
Intangible Assets - Tele serial rights	290.00	–	290.00	–	290.00	–	290.00	–	–
Grand Total	**6,695.15**	**1,616.46**	**447.24**	**7,864.37**	**3,069.59**	**1,128.63**	**384.44**	**3,813.78**	**4,050.59**
Capital work in progress									382.54

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	Face Value (Rs.)	No. of Units	COST
	31st March, 2007		Total
4 INVESTMENTS			
LONG TERM INVESTMENTS (NON TRADE)			
UNQUOTED			
IN UNITS OF MUTUAL FUNDS			
Birla FTP - Series - O - Growth	10.00	10,00,000	100.00
Birla FTP - Quarterly - Series 9 - Dividend - Payout	10.00	5,00,000	50.00
Birla FTP - Series - P - Growth	10.00	10,00,000	100.00
DBS Chola FMP - Series 6 (Qtrly Plan - 3) - Dividend	10.00	10,00,000	100.00
DSP Merrill Lynch - Floating Rate - Reg - Growth	10.00	26,55,243	300.00
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Growth	1,000.00	49,378	500.00
DWS Fixed Term Fund - Series 10 - Growth Plan	10.00	30,00,000	300.00
DWS Fixed Term Fund - Series 14 - Growth Plan	10.00	20,00,000	200.00
DWS Fixed Term Fund - Series 16 - Institutional Plan - Growth Option	10.00	20,00,000	200.00
DWS Fixed Term Fund Series 28 - Dividend Option	10.00	30,00,000	300.00
FT MIP Plan A - Quarterly Dividend	10.00	20,91,533	246.11
Grindlays Fixed Maturity - 7th Plan B - Growth	10.00	27,67,987	300.00
Grindlays Floating Rate Fund - Short Term - Plan C - Growth	10.00	91,61,956	1,000.00
HDFC Monthly Income Plan Short Term Fund - Quarterly Dividend	10.00	23,99,885	245.70
HDFC FMP 13M March 2006 (1) - Institutional Plan - Growth	10.00	20,00,000	200.00
HDFC FMP 16M January 2007 (3) - Wholesale Plan Growth	10.00	10,00,000	100.00
HDFC FMP 13M June 2006 (1) - Institutional Plan - Growth	10.00	50,00,000	500.00
HDFC FMP 26M August 2006 (1) - Institutional Plan - Growth	10.00	10,00,000	100.00
HDFC Equity Fund - Dividend	10.00	5,07,692	200.00
HSBC Fixed Term Series - 4 - Growth	10.00	30,00,000	300.00
HSBC Floating Rate Fund - Short Term - Institutional Option - Growth	10.00	9,50,814	100.00
HSBC Liquid Plus - Institutional - Weekly Dividend	10.00	25,25,685	252.99
HSBC Fixed Term Series 9 - Growth	10.00	30,00,000	300.00
HSBC Fixed Term Series 22 - Institutional - Growth	10.00	20,00,000	200.00
HSBC Fixed Term Series 15 - Institutional - Growth	10.00	10,00,000	100.00
ING Vysya Fixed Maturity Fund Series - XV - Growth Option	10.00	30,00,000	300.00
ING Vysya Fixed Maturity Fund Series - VII - Growth Option	10.00	30,00,000	300.00
JM Equity and Derivative Fund - Growth	10.00	47,45,852	500.00
JM Arbitrage Fund - Growth Plan	10.00	20,00,000	200.00
Kotak FMP Series 14 - Growth	10.00	30,00,000	300.00
Kotak FMP Series 26 - Growth	10.00	40,00,000	400.00
Kotak Cash Plus - Dividend	10.00	20,33,220	206.71
Kotak FMP 3M Series 12 - Dividend	10.00	10,00,000	100.00
Kotak FMP 3M Series 13 - Dividend	10.00	20,00,000	200.00
Kotak FMP 3M Series 14 - Dividend	10.00	30,00,000	300.00
Kotak FMP 6M Series 2 - Dividend	10.00	5,12,460	51.25
Kotak FMP 15M Series 1 - Growth	10.00	20,00,000	200.00
Kotak FMP 16M Series 1 - Growth	10.00	10,00,000	100.00
Kotak Wealth Builder	10.00	10,00,000	100.00
Lotus India FMP - 3 Months - Series IV - Institutional Dividend	10.00	10,00,000	100.00
LIC MF FMP Series 20 - 14 Months Growth Plan	10.00	10,00,000	100.00
LIC MF FMP Series 15 - 13 Months Growth Plan	10.00	15,00,000	150.00

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	Face Value (Rs.)	No. of Units	COST
	31st March, 2007		Total
4 INVESTMENTS (Contd.)			
Principal Income Fund - Short Term - Institutional Plan - Growth	10.00	17,50,011	200.00
Principal Fixed Maturity Plan (FMP - 31) - Series III - Institutional Growth Plan - Nov06	10.00	10,00,000	100.00
Principal Fixed Maturity Plan - II (FMP 29) 460 Days Plan - Aug06	10.00	20,00,000	200.00
Principal Fixed Maturity Plan (FMP 27) 385 Days Series II	10.00	30,00,000	300.00
Prudential I.C.I.C.I. Flexible Income Plan - Dividend	10.00	4,20,214	46.48
Prudential I.C.I.C.I. Short Term Plan - Cumulative Option	10.00	27,37,958	350.00
Prudential I.C.I.C.I. FMP Series - XII - Institutional 1 Dividend	10.00	21,09,092	210.91
Prudential I.C.I.C.I. FMP Series 30 - 13 Months Plan - Institutional - Growth	10.00	40,00,000	400.00
Prudential I.C.I.C.I. FMP Series 34 - 16 Months Plan - Institutional - Growth	10.00	20,00,000	200.00
Prudential I.C.I.C.I. Equity & Derivatives Fund - Income Optimiser - Retail Dividend	10.00	10,00,000	100.00
Reliance Equity Opportunities Fund - Dividend Plan	10.00	5,99,085	113.57
Reliance Monthly Interval Fund - Series I - Retail Dividend Plan	10.00	20,00,000	200.00
Reliance Fixed Horizon Fund - Institutional Plan C - Series I - Institutional Growth Plan	10.00	50,00,000	500.00
Reliance Fixed Horizon Fund I - Annual Plan - Series III - Retail Growth Plan	10.00	20,00,000	200.00
Reliance Fixed Horizon Fund II - Annual Plan - Series III - Institutional Growth Plan	10.00	20,00,000	200.00
Reliance Fixed Horizon Fund II - Annual Plan - Series IV - Institutional Growth Plan	10.00	10,00,000	100.00
Reliance Fixed Horizon Fund I - Quarterly Plan - Series IV - Dividend Option	10.00	30,00,000	300.00
Reliance Fixed Horizon Fund I - Retail Plan-Annual Plan-Series I -Retail Growth Plan	10.00	20,00,000	200.00
Reliance Fixed Tenor Fund Plan - B - Growth Option	10.00	30,00,000	300.00
SBI Debt Fund Series - 13 Months (November 06) - Growth	10.00	10,00,000	100.00
Standard Chartered Fixed Maturity 10th Plan - Growth	10.00	20,00,000	200.00
Standard Chartered Fixed Maturity Plan - Quarterly Series 3 - Dividend	10.00	10,14,760	101.48
Standard Chartered Liquid Manager - Plus - Monthly Dividend	1,000.00	31,738	317.71
Sundaram BNP Paribas Fixed Term Plan Series XXI - 16 Months - Growth	10.00	10,00,000	100.00
Tata Floating Rate Short Term Institutional Plan - Growth	10.00	56,92,492	600.00
Tata Fixed Horizon Fund Series 7 - Scheme B - Growth - Institutional Plan	10.00	10,00,000	100.00
Templeton India Short Term Income Plan Growth	1,000.00	11,283	150.00
UTI - Fixed Term Income Fund - Series 1 - Plan 18 - Q3 Growth Plan	10.00	30,00,000	300.00
UTI - Fixed Maturity Plan (YFMP/0906) Growth Plan	10.00	20,00,000	200.00
UTI Fixed Maturity Plan Yearly Series YFMP/1006 Growth Plan	10.00	10,00,000	100.00
UTI Fixed Term Income Fund Series II - Plan 16 - Institutional Growth Plan	10.00	30,00,000	300.00
UTI Fixed Maturity Plan (HFMP / 0207) - Dividend Plan - Re-investment	10.00	10,07,424	100.74
UTI Fixed Term Income Fund - Series II Plan 16 - Institutional Growth Plan	10.00	10,00,000	100.00
UTI - Fixed Maturity Plan Yearly Series / 0606 Growth Plan	10.00	30,00,000	300.00
			17,193.65
Quoted			
6.75% Tax free Bonds of Unit Trust of India of Rs.100/- each	100.00	5,00,000	513.28
Total			**17,706.93**

(Rupees in lacs)

Notes	Cost	Market Value
1. Aggregate of Quoted Invetsments	513.28	498.00
Aggregate of Unquoted investments	17,193.65	
Total	**17,706.93**	

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

2 Details of investments purchased and sold during the year

(Rupees in lacs)

Particulars	Nos.	Cost
Birla Cash Plus - Institutional Plan Weekly Dividend	3,697,370	400.00
Birla Cash Plus - Institutional Plan Weekly Dividend	1,387,296	150.00
Birla Cash Plus - Institutional Plan Weekly Dividend	147,329	15.92
DSP Merrill Lynch Floating Rate Fund Weekly - Dividend	28,386	2.85
DSPML Liquidity Fund - Institutional - Monthly Dividend	53,330	533.41
DSPML Liquidity Fund - Institutional - Monthly Dividend	14,989	150.00
DSPML Short Term Fund - Dividend	966,482	101.40
Duetsche Floating Rate Fund Regular Plan - Mtly Dividend	39,354	4.03
Dws Fixed Term Fund - Series 13 - Dividend - 90 Days	500,000	50.00
DWS Fixed term Fund - Series 22 - Dividend	3,000,000	300.00
DWS Money Plus Fund - Regular Plan - Weekly Dividend	2,020,221	202.88
Grindlays Floating Rate Fund - Long Term Plan A Monthly div - Dividend	7,917	0.79
Grindlays Floating Rate Fund - Short Term - Monthly Dividend	12,851	1.29
Hdfc Cash Mgmt Fund - Saving Plan - Weekly Dividend	46,892	4.98
Hdfc Cash Mgmt Fund - Saving Plus Plan - Weekly Dividend	2,992,071	300.00
Hdfc Cash Mgmt Fund - Saving Plus Plan - Weekly Dividend	325,507	32.60
Hdfc Floating Rate Income Fund - ST Plan Div. - Dividend	12,342	1.25
Hsbc Cash Fund - Institutional - Monthly Dividend	39,856	4.17
JM High Liquidity - Institutional - Weekly Dividend	7,440	0.75
Kotak Fixed Maturity Plan - 3M Series 7 - Dividend	3,000,000	300.00
Kotak Fixed Maturity Plan 3M Series 4 - Dividend	500,000	50.00
Kotak Floater Short Term Monthly Dividend	27,597	2.76
Kotak Liquid-Institutional Premium Plan - Weekly Dividend	48,144	4.83
Kotak Liquid-Institutional Premium Plan - Weekly Dividend	2,986,709	300.00
Pru ICICI Floating Rate Plan -Dividend	37,403	3.76
Reliance Fixed Horizon Fund - I - Qly Plan B - Series III - Dividend	1,000,000	100.00
Standard Chartered Fixed Maturity 7th Plan	3,000,000	300.00
Tata Monthly Income Fund - Monthly Dividend	99,587	11.46
Templeton Treasury Management Account - Daily Dividend	64	0.97
UTI Liquid Cash Plan Institutional - Daily Income Option	506	5.16

(Rupees in lacs)

	31st March, 2007
5 INVENTORIES	
Television serials / feature films	1,236.66
Tapes	17.26
Total	**1,253.92**

6 SUNDRY DEBTORS	
(Unsecured and considered good)	
Debts outstanding for a period exceeding six months	180.88
Other debts	6,778.45
Total	**6,959.33**

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	31st March, 2007
7 CASH AND BANK BALANCES	
Cash on hand	44.84
Bank balances	
- with Scheduled banks	
In Current accounts	431.81
In Fixed deposits accounts (over which bank has a lien)	296.94
- with others	
In Current accounts	13.44
	742.19
Total	**787.03**

8 LOANS AND ADVANCES	
(Unsecured and considered good)	
Advances recoverable in cash or in kind or for value to be received	2,113.45
Advance tax (net)	524.73
Fringe benefit tax (net)	30.60
Deposits *	973.72
Total	**3,642.50**
Notes:	
1.* : Includes deposits given to directors for property taken on lease from them	730.00
2. Maximum amount outstanding at any time during the year for above deposits	730.00

9 CURRENT LIABILITIES	
Sundry creditors	
(i) Total outstanding dues to small scale industrial undertakings	–
(ii) Total outstanding dues of creditors other than small scale industrial undertakings	3,436.26
	3,436.26
Advances received from customers	8.03
Other liabilities	279.17
Total	**3,723.46**

10 PROVISIONS	
Provision for tax	183.39
Total	**183.39**

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	31st March, 2007	
11 OTHER INCOME		
Interest on:		
Fixed deposits with banks (gross) (Tax deducted at source Rs. 5.26 lacs)	22.01	
Tax Free Bonds	33.75	
Income tax refund	29.23	
Staff loan	1.05	
		86.04
Insurance Claim Received		10.73
Dividend on long term investments (non trade)		259.20
Excess provision of earlier years written back		51.25
Profit on sale of long term investments (non trade) (net)		526.38
Bad debts recovered		0.90
Exchange Gain (Net)		2.88
Miscellaneous income		6.56
Total		**943.94**

12 COST OF PRODUCTION OF TELEVISION SERIALS / FEATURE FILMS		
Opening stock of television serials / feature films and tapes		1,161.82
Add: Cost of production		
Purchase of costumes and dresses	591.02	
Purchase of tapes	365.67	
Payments to and provision for artistes, junior artistes, dubbing artistes fees	4,096.59	
Payments to and provision for directors, technicians and other fees	4,860.34	
Shooting and location expenses	1,828.21	
Telecasting fees	956.12	
Uplinking charges / Special dispatch charges	449.27	
Food and refreshments	408.64	
Set properties and equipment hire charges	1,149.18	
Other production expenses	1,332.81	
		16,037.85
		17,199.67
Less: Closing stock of television serials / feature films and tapes		1,253.92
Total		**15,945.75**

13 EMPLOYEE COSTS		
Salaries, wages and bonus		1,101.03
Contribution to Provident and Other funds		33.54
Staff welfare expenses		23.14
Total		**1,157.71**

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

(Rupees in lacs)

	31st March, 2007
14 ADMINISTRATIVE AND OTHER EXPENSES	
Electricity and water charges	316.77
Lease rent	463.18
Rates and taxes	19.84
Insurance	216.37
Repairs and maintenance	
- Building	2.56
- Plant and machinery	21.49
- Others	207.05
Travelling and conveyance expenses	185.05
Legal and professional charges	374.90
Communication charges	59.38
Loss on sale / discard of fixed assets (net)	59.40
Donations	13.10
Bad debts written off	208.22
Director's sitting fees	4.05
Advertisement and sales promotion expenses	19.36
Miscellaneous expenses	533.07
Preliminary Expenses	15.28
Total	**2,719.07**

15 INTEREST	
On cash credit account	0.42
Total	**0.42**

SCHEDULES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of consolidation:

Accounts of Balaji Telefilms Limited and its subsidiaries 'Balaji Motion Pictures Limited' and 'Balaji Telefilms FZE' have been consolidated in accordance with generally accepted principles and is in conformity with the Accounting Standard (AS) 21 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India.

Basis of accounting

The financial statements are prepared under the historical cost convention on accrual basis of accounting and in accordance with generally accepted accounting principles in India.

Fixed assets

Fixed assets are stated at cost of acquisition or construction. They are stated at historical cost less accumulated depreciation and impairment loss, if any.

Depreciation

Depreciation on fixed assets is provided on straight line basis in accordance with provisions of the Companies Act, 1956 at the rates and in the manner specified in schedule XIV of this Act except for the following fixed assets where higher rates of depreciation have been applied:

Studios and sets @ 33.33%

Plant and machinery - Computers @ 16.21%

Investments

Current investments are carried at lower of cost and fair value. Long term investments are carried at cost. However, when there is a decline, other than temporary, the carrying amount is reduced to recognise the decline.

Inventories

Items of inventory are valued at lower of cost and net realisable value. Cost is determined on the following basis:

Tapes	:	First In First Out
Television serials/ feature films	:	Average cost
Unamortised cost of feature films	:	The cost of feature films is amortised in the ratio of current revenue to expected total revenue. At the end of each accounting period, balance unamortised cost is compared with net expected revenue. If net expected revenue is less than unamortised cost, the same is written down to net expected revenue.

Revenue recognition

a) In respect of sponsored programmes, revenue is recognised as and when the relevant episodes of the programmes are telecast.

b) In respect of commissioned programmes, revenue is recognised as and when the relevant episodes of the programmes are delivered to the channels.

c) In respect of films, revenue is recognised in accordance with the terms and conditions of the agreements on or after the first theatrical release of the films.

In all other cases, revenue (income) is recognised when no significant uncertainty as to its determination or realisation exists.

Retirement benefits

Provident fund

Contribution as required under the statute / rules is made to the Government Provident fund.

Gratuity

The trustees of Balaji Telefilms Limited Employees Group Gratuity - Cum - Life Assurance (Cash Accumulation) Scheme have taken a Group Gratuity cum Life Assurance Policy from the Life Insurance Corporation of India. Provision is made on the basis of contribution payable in respect of the aforesaid policy.

In respect of Balaji Telefilms FZE, the provision for employees' end of service indemnity is made in accordance with the UAE labour laws, and is based on current remuneration and cumulative years of service at the Balance Sheet date.

Foreign Currency Transactions

Transactions in foreign currency, including in respect of foreign operations integral in nature, are recorded at the original rates of exchange in force at the time the transactions are effected. At the year end, monetary items, including those of foreign operations integral in nature, denominated in foreign currency are reported using the closing rates of exchange. Exchange differences arising thereon and on realization/ payment of foreign exchange are accounted for in the relevant year as income or expense.

SCHEDULES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. All other borrowing costs are charged to revenue.

Taxes on income

Tax expense comprises both current and deferred tax at the applicable enacted / substantively enacted rates. Current tax represents the amount of income tax payable/ recoverable in respect of the taxable income/ loss for the reporting period. Deferred tax represents the effect of timing differences between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods.

Provisions and Contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of a past event, for which it is probable that cash outflow will be required and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are disclosed when the Company has a possible or present obligation where it is not probable that an outflow of resources will be required to settle it. Contingent assets are neither recognized nor disclosed.

Impairment loss

Impairment loss is provided to the extent the carrying amount of assets exceeds their recoverable amounts. Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the 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. Net selling price is the amount obtainable from sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Intangible assets

Intangible assets are stated at cost of acquisition less amortisation. Teleserial rights are amortised on a straight-line basis over the period of the agreement(s).

B. NOTES ON ACCOUNTS TO CONSOLIDATED FINANCIAL STATEEMENTS

1. Details of Subsidiaries included in Consolidated Financial Statements

Name	Country of Incorporation	% of Ownership interest / voting power
Balaji Motion Pictures Limited	India	100%
Balaji Telefilms FZE	United Arab Emirates (UAE)	100%

(Rupees in lacs)

2. Estimated amount of contracts remaining to be executed on capital account and not provided for:	286.84
3. Balaji Telefilms Limited (The Parent Company) has applied to the Office of the Commissioner of Sales- tax, Mumbai, to ascertain whether the Parent Company sales are liable to tax under the Sales- tax laws. The matter is still pending before the Sales -tax authority.	
4. Managerial remuneration under section 198 of the Companies Act, 1956 to Directors (including to the Managing Director of the Parent Company)	
Salary	175.44
Commission	720.21
Contribution to Provident Fund	11.52
Total	**907.17**

5. **Payment to auditors:** *(Rupees in lacs)*

a) as auditors	16.18
b) as advisor, or in any other capacity, in respect of - taxation matters	2.50
c) in any other manner (certification work, etc.)	4.00
d) as expenses	0.15
e) for service tax	0.12
Total	**22.95**

SCHEDULES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

6. Cash credit facility with a bank is secured by hypothecation of the current assets (both present and future) and library assets of the Parent Company.

7. **Related Party Disclosures**

(a) Name of related parties and description of relationship.

Name of the Related Party	Relationship
Mr. Jeetendra Kapoor	Key management person
Mrs. Shobha Kapoor	Key management person
Ms. Ekta Kapoor	Key management person
Mr. Tusshar Kapoor	Key management person
Mrs. Nirmala Sood	Relative of key management personnel
Mr. Ramesh Sippy	Relative of key management personnel
Mr. Rakesh Sippy	Relative of key management personnel

b) Details of Transactions with related parties during the year *(Rupees in lacs)*

Nature of Transactions	1	2	Total
Directors sitting fees			
Mr. Jeetendra Kapoor	0.75	–	0.75
Rent			
Mr. Jeetendra Kapoor	14.40	–	14.40
Mrs. Shobha Kapoor	124.98	–	124.98
Mr. Tusshar Kapoor	2.40	–	2.40
Others	0.18	–	0.18
Remuneration			
Mrs. Shobha Kapoor	391.57	–	391.57
Ms. Ekta Kapoor	391.57	–	391.57
Mr. Jeetendra Kapoor	97.27	–	97.27
Others	11.76	1.20	12.96
Dividend paid			
Mrs. Shobha Kapoor	645.78	–	645.78
Ms. Ekta Kapoor	632.26	–	632.26
Mr. Jeetendra Kapoor	361.89	–	361.89
Mr. Tusshar Kapoor	131.97	–	131.97
Others	–	0.62	0.62
Amount payable as at 31st March,2007			
Mrs. Shobha Kapoor	311.28	–	311.28
Ms. Ekta Kapoor	311.28	–	311.28
Mr. Jeetendra Kapoor	97.27	–	97.27
Others	0.98	0.10	1.08
Amount receivable (Deposits for lease property) as at 31st March,2007			
Mrs. Shobha Kapoor	330.00	–	330.00
Mr. Jeetendra Kapoor	306.60	–	306.60
Mr. Tusshar Kapoor	100.00	–	100.00

Note:

There are no provision for doubtful debts, amounts written off or written back during the year for debts due from or due to related parties.

1. Key management personnel
2. Relatives of key management personnel

SCHEDULES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

8. **Segment Information:**

(A) Information about primary segments

The Group has considered business segment as the primary segment for disclosure. The reportable business segments are as under:

(a) Commissioned Programmes : Income from sale of television serials to channels

(b) Sponsored Programmes : Income from telecasting of television serials on channels

(c) Feature Films : Income from Films

(Rupees in lacs)

	Commissioned Programmes	Sponsored Programmes	Feature Films	Total
REVENUE				
From External Customers	29,286.78	2,459.90	275.00	32,021.68
Add: Inter Segment sale	–	–	–	–
Total Revenue	29,286.78	2,459.90	275.00	32,021.68
RESULTS				
Segment result	14,105.38	562.32	(21.25)	14,646.45
Unallocable Corporate Expenses	–	–	–	(3,753.61)
Operating Profit			10,892.84	
Interest Expense	–			(0.42)
Interest income/Dividend on Long-Term Investments	–			345.24
Profit on sale of Long-Term Investments (non trade)	–			526.38
Provision for tax				(3,838.97)
Profit after tax				7,925.07
OTHER INFORMATION:				
Segment assets	10,061.10	1,562.63	1,960.65	13,584.38
Unallocated Corporate assets				21,198.46
Total assets				**34,782.84**
Segment liabilities	2,277.68	228.68	246.00	2,752.36
Unallocated Corporate liabilities				1,631.79
Total Liabilities				**4,384.15**
Capital expenditure	1,116.59	94.52	–	1,211.11
Depreciation	1,008.69	3.80	–	1,012.49
Significant Non cash expenses other than depreciation				
Loss on sale / discard of fixed assets (net)	–			59.40
Bad debts written off	–			208.22

(B) Segment information for secondary segment reporting (by geographical segment)

The Group has two reportable geographical segments based on location of customers:

i) Revenue from customers within India - local

ii) Revenue from customers Outside India – export

	Outside India	Within India	Total
A) Revenue (Turnover)	26,734.79	5,286.89	32,021.68
B) Carrying amount of assets	5,820.46	9,913.09	15,733.55
C) Addition to fixed assets	92.55	1,395.13	1,487.68

SCHEDULES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS OF BALAJI TELEFILMS LIMITED AND ITS SUBSIDIARIES

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

9. **Earning Per Share:**

Earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of equity shares outstanding during the year as under :

Net profit after tax as per the Profit and Loss account-(Rs. in lacs)	7,925.07
Excess provision for tax in respect of earlier years-(Rs. in lacs)	29.38
(A) Profit for the year attributable to equity share holders-(Rs. in lacs)	7,954.45
(B) Weighted average number of equity shares outstanding during the year (Nos.)	65,210,443
(C) Earnings per share-Basic and diluted (Rs.)	12.20
(D) Nominal value of shares (Rs.)	2

10. **Components of Deferred Tax Assets / (Liabilities)** *(Rupees in lacs)*

	As at 31st March, 2007
Difference between the books and the written down values of fixed assets	(477.35)
Preliminary expenses u/s 35D of the Income Tax Act, 1961.	0.05
Deferred tax asset/ (liability)-net Total	**(477.30)**

11. **Lease Transactions:**

a) Future lease rentals in respect of fixed assets taken on non-cancellable operating lease basis are as follows:

(Rupees in lacs)

1) Amount due within 1year	74.40
2) Amount due later than 1year and not later than 5 years	199.80
3) Amount due later than 5 years	–
	274.20

b) Amount of lease rentals charged to the profit and loss account in respect of operating leases is Rs. 456.10 lacs

12. **Employee Benefits**

a) The Parent Company has made contribution to Government Provident Fund in respect of all employees along with contribution collected from these employees. The Contribution is based on certain portion of the employees' salary. Amount recognized as expense during the year is Rs. 28.16 Lacs.

b) The Trustees of Balaji Telefilms Limited Employees Group Gratuity- Cum-Life Assurance (Cash Accumulation) Scheme have taken a Group Gratuity cum Life Assurance Policy from the Life Insurance Corporation of India to fund a gratuity liability (post employment benefit plan) of the Parent Company. The amount of premium/ contribution made to this plan during the year and recognized as expense is Rs. 5.37 Lacs

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

Signatures to Schedule 1 to 13

As per our attached report of even date

For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

Place : Mumbai
Dated : 16th May, 2007

For SNEHAL & ASSOCIATES
Chartered Accountants

SNEHAL SHAH
(Proprietor)
Membership No. 40016
Place : Mumbai
Dated : 16th May, 2007

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Managing Director)**
Ekta Kapoor **(Creative Director)**

Tusshar Kapoor **(Director)**
Akshay Chudasama **(Director)**

Pradeep Sarda **(Director)**
Dhruv Kaji **(Director)**

Paul Aeillo **(Director)**
John Yu Leung Lau **(Director)**

Alpa Khandor **(Company Secretary)**
Sandeep Jain **(Chief Financial Officer)**

Place : Mumbai
Dated : 16th May, 2007

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

Name of the Subsidiary Company	Balaji Motion Pictures Limited	Balaji Telefilms FZE
1. The Financial year/period of the Subsidiary Companies ended on	31st March, 2007	31st March, 2007 - (Refer note 1)
2. Date from which they became Subsidiary Companies	9th March, 2007-Being the date of incorporation.	3rd September, 2006- Being the date of incorporation.
3 a. Number of shares held by the Company with its nominees in the subsidiaries at the end of the financial year of the Subsidiary Companies	15,00,000	1
3 b. Extent of interest in subsidiary Company	100%	100%
4. The Net aggregate amount of the Subsidiary Companies Profit/(loss) so far as it concerns the members of the Company.		
a) Not dealt with in the Company's accounts		
i) for the financial year ended 31st March, 2007	Rs. 61,313	AED (208,637)
ii) for the previous financial years of the Subsidiary Companies since they became the Company's subsidiaries	NA	NA
b) Dealt with in the Company's accounts		
i) for the financial year ended 31st March, 2007	NIL	NIL
ii) for the previous financial years of the Subsidiary Companies since they became the Company's subsidiaries	NA	NA

Note :

1. The statutory financial year of the subsidiary- Balaji Telefilms-FZE ends on 30th June, however for the purpose of the Consolidation, the accounts of the subsidiary has been drawn up to the period ended 31st March, 2007 (3rd September, 2006 to 31st March, 2007) and it has been audited by the Chartered Accountant firm.
2. Figures in bracket represent loss.

For and on behalf of the Board

Jeetendra Kapoor
(Chairman)

Shobha Kapoor
(Managing Director)

Ekta Kapoor
(Creative Director)

Tusshar Kapoor
(Director)

Akshay Chudasama
(Director)

Pradeep Sarda
(Director)

Dhruv Kaji
(Director)

Paul Aeillo
(Director)

John Yu Leung Lau
(Director)

Place : Mumbai
Dated : 16th May, 2007

Alpa Khandor
(Company Secretary)

Sandeep Jain
(Chief Financial Officer)

DIRECTORS' REPORT

The Directors present their First Annual Report together with the audited accounts of the Company for the period ended 31st March 2007.

Financial results and operations

During the period under review, the Company made a profit before tax of Rs. 857,940 and profit after tax of Rs. 61,313.

The summarised results:

Particulars	(Rs. in lakh)
Income	27,500,000
Expenditure	26,642,060
Provision for taxation/deferred tax	796,627
Profit after taxation	61,313

Share capital

The Company has been incorporated with initial paid-up share capital of Rs. 1,50,00,000.

Directors

Mr. Jeetendra Kapoor, Ms. Shobha Kapoor and Ms. Ekta Kapoor were appointed as first Directors of the Company and hence are to be appointed as Directors at the First Annual General Meeting of the Company and, being eligible, offer themselves for appointment.

On 27th March 2007, Mr. Tusshar Kapoor, Mr. Dhruv Kaji and Mr. John Lau were appointed as Additional Directors of the Company, who holds office up to the date of the ensuing Annual General Meeting of the Company and being eligible, offer themselves for reappointment as Directors.

Mr. Jeetendra Kapoor was designated as Chairman of the Company.

Auditors

The Company's auditors, M/s Deloitte Haskins & Sells, Chartered Accountants, Mumbai, retire at the Annual General Meeting and are eligible for reappointment.

Particulars of employees

The Company did not have any employees falling within the scope of Sub-Section (2A) of Section 217 of the Companies Act, 1956.

Conservation of energy and technology absorption

The Company is not engaged in manufacturing activities and as such, particulars relating to conservation of energy and technology absorption are not applicable. However, in studios, post production facilities and other measures are being taken to conserve energy as far as possible.

Foreign exchange earnings and outgo

The particulars regarding foreign exchange earnings and outgo are given in Schedule XI B (Statement of Significant Accounting Policies and Notes), forming part of accounts of this report.

Fixed deposits

The Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

Directors' Responsibility Statement

The Directors of the Company confirm that:

- In the preparation of the annual accounts, the applicable accounting standards have been followed.
- The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that period.
- 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.
- The Directors have prepared the annual accounts on a going concern basis.

Acknowledgements

Your Directors wish to place on record their gratitude to bankers and business associates for their continued support.

For and on behalf of the Board of Directors

Place: Mumbai
Dated: 16th May, 2007

Jeetendra Kapoor
Chairman

AUDITORS' REPORT

To,
The Members of
Balaji Motion Pictures Limited

1. We have audited the attached Balance Sheet of Balaji Motion Pictures Limited as at 31st March 2007, the Profit and Loss Account and also the Cash Flow statement for the period from 9th March, 2007 to 31st March, 2007 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 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:
   (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 the 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 Companies Act, 1956;
   (e) on the basis of written representations received from the directors, as on 31st March, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
   (f) 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:
      (i) in case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2007;
      (ii) in case of the Profit and Loss Account, of the profit for the period ended on that date; and
      (iii) in case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

A. Siddharth
Partner
Membership no. 31467

Place: Mumbai
Dated: 16th May, 2007

ANNEXURE TO AUDITOR'S REPORT

Re: Balaji Motion Pictures Limited.

(referred to in paragraph 3 of our report of even date)

(i) The requirements of clauses (i), (ii), (x), (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company for the period.

(ii) (a) The Company has not granted any loans to companies, firms and other parties covered in the Register maintained under section 301 of the Companies Act, 1956. Consequently requirements of clauses iii(a) to iii(d) of paragraph 4 of the order are not applicable.

(b) The Company has taken interest free advance in the nature of loan from party covered in the register maintained under section 301 of the Companies Act, 1956. The amount involved during the period aggregated to Rs. 17,10,65,047/-

(c) In our opinion, other terms and condition on which loans have been taken from a party listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company.

(d) The Principal amounts are payable on demand in respect of the loans taken.

(iii) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, and for the sale of films. The Company has not purchased any fixed assets during the period.

(iv) In our opinion and according to the information and explanations given to us there are no contracts or arrangements, particulars of which need to be entered into a Register maintained in pursuance of Section 301 of the Companies Act, 1956. Consequently, the question of commenting on the reasonableness of prices of transactions made in pursuance of such contracts or arrangements, exceeding the value of Rs. 500,000 in respect of each party does not arise;

(v) The Company has not accepted deposits from the public within the meaning of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956, where applicable, and the Rules framed thereunder. We are informed that no Order has been passed by the Company Law Board or the Reserve Bank of India or any Court or any other Tribunal.

(vi) The Company did not have an internal audit system during the period.

(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) (a) In our opinion and according to the information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues, where applicable, with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the financial period for a period of more than six months from the day they became payable;

(b) According to the information and explanations given to us, there are no cases of non-deposit with appropriate authorities of disputed dues of sales tax/income-tax /customs duty/wealth-tax/service tax/excise duty/cess.

(ix) The Company does not have borrowings from financial institutions and bank and has not issued debentures. Consequently the question of commenting on default in repayment of dues in respect thereof does not arise.

(x) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xi) 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.

(xii) The Company has not obtained any term loan during the period and hence the question of commenting on application thereof does not arise.

(xiii) 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.

(xiv) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.

(xv) No debentures have been issued by the Company and hence the question of creating security or charge in respect thereof does not arise.

(xvi) During the period, the Company has not raised money by public issue(s).

(xvii) To the best of our knowledge and belief, and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the period.

For **Deloitte Haskins & Sells**
Chartered Accountants

A.Siddharth
Partner
Membership no. 31467

Place: Mumbai
Dated: 16th May, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

		As at 31st March, 2007	
	Schedule	Rupees	Rupees
I SOURCES OF FUNDS			
1 Shareholders' funds			
A. Share capital	1	15,000,000	
B. Reserves and surplus	2	61,313	15,061,313
2 LOAN FUNDS			
Unsecured Loans			
Other Loans and advances from others - Holding Company			171,065,047
Total			**186,126,360**
II. APPLICATION OF FUNDS			
1 Deferred Tax Asset			5,303
2 Current assets, loans and advances			
A. Inventories	3	31,855,766	
B. Sundry debtors	4	27,500,000	
C. Cash and bank balances	5	13,489,680	
D. Loans and advances	6	136,709,281	
		209,554,727	
Less:- Current liabilities and provisions			
A. Current liabilities	7	22,631,740	
B. Provisions	8	801,930	
		23,433,670	
Net current assets			186,121,057
Total			**186,126,360**
Significant accounting policies and notes on accounts	11		

As per our attached report of even date

For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

For and on behalf of
Balaji Motion Pictures Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Director)**
Ekta Kapoor **(Director)**
Tusshar Kapoor **(Director)**
Dhruv Kaji **(Director)**
John Yu Leung Lau **(Director)**

Place : Mumbai
Dated : 16th May, 2007

Place : Mumbai
Dated : 16th May, 2007

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 9TH MARCH, 2007 TO 31ST MARCH, 2007

	Schedule	Rupees
INCOME		
Turnover		27,500,000
Total		**27,500,000**
EXPENDITURE		
Purchase of Satellite Rights		25,000,000
Cost of production of feature films	9	–
Administrative and other expenses	10	1,642,060
Total		**26,642,060**
Profit Before Tax		**857,940**
Provision for tax		
Current tax		(801,930)
Deferred tax		5,303
		(796,627)
Profit After Tax (Carried to Balance Sheet)		**61,313**
Basic and diluted earnings per share		**0.04**
(Refer note 4 of Schedule 11)		
Significant accounting policies and notes on accounts	11	

As per our attached report of even date

For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

For and on behalf of
Balaji Motion Pictures Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Director)**
Ekta Kapoor **(Director)**
Tusshar Kapoor **(Director)**
Dhruv Kaji **(Director)**
John Yu Leung Lau **(Director)**

Place : Mumbai
Dated : 16th May, 2007

Place : Mumbai
Dated : 16th May, 2007

CASH FLOW STATEMENT

FOR THE PERIOD FROM 9TH MARCH, 2007 TO 31ST MARCH, 2007

		As at 31st March, 2007	
		Rupees	Rupees
A	**Cash flow from operating activities**		
	Profit before tax	**857,940**	
	Operating profit before working capital changes	857,940	
	(Increase) in trade and other receivable	(164,209,281)	
	(Increase) in inventories	(31,855,766)	
	Increase in trade payables	22,631,740	
	Net cash (used in) operating activities (a)		(172,575,367)
B	**Cash flow from investing activities (b)**		–
C	**Cash flow from financing activities**		
	Proceeds from Issue of Shares	15,000,000	
	Loan/ Advances from Holding Company	171,065,047	
	Net Cash from Financing Activities (c)		186,065,047
	Net increase in cash and Cash equivalents) (a+b+c)		13,489,680
	Cash and cash equivalents as at 9th March, 2007 (opening balance)	–	
	Cash and cash equivalents as at 31st March, 2007 (closing balance)	13,489,680	

As per our attached report of even date

For DELOITTE HASKINS & SELLS
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

Place : Mumbai
Dated : 16th May, 2007

For and on behalf of
Balaji Motion Pictures Limited

Jeetendra Kapoor **(Chairman)**
Shobha Kapoor **(Director)**
Ekta Kapoor **(Director)**
Tusshar Kapoor **(Director)**
Dhruv Kaji **(Director)**
John Yu Leung Lau **(Director)**

Place : Mumbai
Dated : 16th May, 2007

SCHEDULES FORMING PART OF BALANCE SHEET

	Rupees As at 31st March, 2007
1 SHARE CAPITAL	
Authorised:	
20,000,000 Equity shares of Rs. 10/- each	200,000,000
Issued, Subscribed and Paid-up	
1,500,000 Equity shares of Rs. 10/- each (All the above shares are held by Balaji Telefilms Limited, the holding Company and its nominees)	15,000,000
Total	**15,000,000**
2 RESERVES & SURPLUS	
Surplus in Profit and Loss account	61,313
Total	**61,313**
3 INVENTORIES	
Feature films (Refer note 5 of Schedule 11)	31,855,766
Total	**31,855,766**
4 SUNDRY DEBTORS (Unsecured and considered good)	
Debts outstanding for a period exceeding six months	–
Other debts	27,500,000
Total	**27,500,000**
5 CASH AND BANK BALANCE	
Balances with scheduled banks	
In Current accounts	13,489,680
Total	**13,489,680**
6 LOANS AND ADVANCES (Unsecured, considered good)	
Advances recoverable in cash or in kind or for value to be received (Refer note 5 of Schedule 11)	136,709,281
Total	**136,709,281**

SCHEDULES FORMING PART OF BALANCE SHEET

	Rupees As at 31st March, 2007
7 CURRENT LIABILITIES	
Sundry creditors	
(i) Total outstanding dues to small scale industrial undertakings	–
(ii) Total outstanding dues of creditors other than small scale industrial undertakings	21,229,240
Other Liabilities	1,402,500
Total	**22,631,740**
8 PROVISION	
Provision for tax	801,930
Total	**801,930**

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	Rupees As at 31st March, 2007
9 COST OF PRODUCTION OF FEATURE FILMS	
Cost of Feature films transferred from Holding Company	31,855,766
Less: Closing stock of feature films	(31,855,766)
Total	–
10 ADMINISTRATIVE AND OTHER EXPENSES	
Auditors Remuneration (including Service tax of Rs. 12,240/-)	112,240
Preliminary Expenses	1,528,400
Miscellaneous Expenses	1,420
Total	**1,642,060**

SCHEDULES FORMING PART OF THE ACCOUNT

11 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting

The financial statements are prepared under the historical cost convention on accrual basis of accounting and in accordance with generally accepted accounting principles in India.

Inventories

Items of inventory are carried at lower of cost and net realizable value. Cost is determined on the following basis:

Feature Films : Average Cost

Revenue recognition

In respect of films, revenue is recognised in accordance with the terms and conditions of the agreements on or after the first theatrical release of the films. In other cases, revenue (income) is recognized when no significant uncertainty as to its determination or realization exists.

Foreign currency transactions

Transactions in foreign currency are recorded at the original rates of exchange in force at the time the transactions are effected. At the year end, monetary items denominated in foreign currency are reported using the closing rates of exchange. Exchange differences arising thereon and on realisation / payment of foreign exchange are accounted in the relevant year as income or expense.

Taxes on income

Tax expense comprises both current and deferred tax at the applicable enacted/ substantively enacted rates. Current tax represents the amount of income tax payable/ recoverable in respect of the taxable income/ loss for the reporting period. Deferred tax represents the effect of timing differences between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods.

Provisions and Contingencies

Provisions are recognized when the Company has a legal and constructive obligation as a result of a past event, for which it is probable that cash outflow will be required and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are disclosed when the Company has a possible or present obligation where it is not probable that an outflow of resources will be required to settle it. Contingent assets are neither recognized nor disclosed.

B. **NOTES ON ACCOUNTS**

1. The accounts of the Company have been prepared from 9th March, 2007 being the date of incorporation till 31st March, 2007. This being the first accounting period, the question of giving previous year figures does not arise.

2. **Related Party Disclosures**

   (a) Name of related party and description of relationship where control exists.

Name of the Related Party	Relationship
Balaji Telefilms Limited	Holding Company

   b) Details of Transactions with related party during the year

Nature of Transactions	Rupees
Assets transferred from Holding Company	
Balaji Telefilms Limited	171,065,047
Amount payable as at 31st March, 2007 to Holding Company	
Balaji Telefilms Limited	171,065,047

   Note:
   There are no provision for doubtful debts, amounts written off or written back during the year for debts due from or due to related parties.

3. The primary segment of the Company is business segment which comprises of carrying on the business of production and distribution of motion pictures and feature films. As the Company operates in a single primary business segment, therefore the question of disclosing the primary segment information does not arise. The Company has only one reportable geographical segment and hence the question of disclosures for secondary segment does not arise.

4. **Earning Per Share**
   Earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of equity shares outstanding during the period as under:

(A) Net Profit after tax for the period attributable to equity share holders-(Rs.)	61,313
(B) Weighted average number of equity shares outstanding during the period (Nos.)	1,500,000
(C) Earnings per share - Basic and diluted (Rs.)	0.04
(D) Nominal value of shares (Rs.)	10.00

5. The Company has been incorporated during the year on 9th March, 2007 mainly for undertaking all the film related production and distribution business. As per the deed of assignment, the Holding Company has transferred, the following assets/ interest relating to unlaunched film projects to the Company:-

	Rupees
a) Advances to co-productions (including interest therein)	139,209,281
b) Unlaunched Film Inventory	31,855,766
Total:	**171,065,047**

6. **Components of Deferred Tax Assets** *Rupees*

	As at 31st March, 2007
Preliminary expenses	5,303
Deferred tax asset Total	**5,303**

7. The Company has not received any intimation from 'suppliers' regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under this Act have not been given.

8. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of part II of schedule VI of the Companies Act, 1956 (to the extent applicable)

	Rupees
a) Earnings in foreign exchange:	
Export of Satellite Rights	27,500,000

Signatures to schedules 1 to 11

As per our attached report of even date

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

A. SIDDHARTH
(Partner)
Membership No. 31467

Place : Mumbai
Dated : 16th May, 2007

For and on behalf of
Balaji Motion Pictures Limited

Jeetendra Kapoor **(Chairman)** Shobha Kapoor **(Director)** Ekta Kapoor **(Director)**

Tusshar Kapoor **(Director)** Dhruv Kaji **(Director)** John Yu Leung Lau **(Director)**

Place : Mumbai
Dated : 16th May, 2007

BALANCE SHEET ABSTRACT

Information pursuant to the provisions of Part IV of the Schedule VI to the Companies Act, 1956

I Registration Details

Registration No.	U22300MH2007PLC168515		
Balance sheet date	31st March, 2007	State Code	11

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

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

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

Total Liabilities	186,126	Total Assets	186,126
Sources of funds			
Paid-up capital	15,000	Reserves and Surplus	61
Secured Loans	–	Unsecured Loans	171,065
Application of funds			
Net Fixed Assets	–	Investments	–
Net Current Assets	186,121	Miscellaneous Expenditure	–
Accumulated Losses	–	Deferred tax liability (net)	5

Performance of the Company (Amount in Rupees thousands)

Turnover	27,500	Total Expenditure	26,642
Profit/(Loss) before tax	858	Profit /(Loss) after tax	61
Earnings Per Share (Rs.)	0.04	Interim Dividend rate	0%

Refer Note No. 9 of Schedule 16

IV Generic names of three principal products / services of the Company (as per monetary terms)

Item Code No. Not applicable
Product Description Feature Films

First audited accounts of the Company for the period ended 31st March 2007.

OPERATIONS

During the period under review, the Company got incorporated at Sharjah Airport International Free (SAIF) Zone, to provide content to the leading channels of the region. Company has already started production of one serial and is likely to go on air by end of June 2007.

ACKNOWLEDGEMENTS

Directors and officers of the Company wish to place on record their gratitude to the bankers, business associates and officials of SAIF Zone for their continued support.

INDEPENDENT AUDITORS' REPORT

The Owner
Balaji Telefilms (FZE)
Sharjah Airport International Free Zone
Sharjah
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Balaji Telefilms (FZE) - Sharjah Airport International Free Zone, Sharjah, United Arab Emirates,** which comprise the balance sheet as at March 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the period from inception to March 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Balaji Telefilms (FZE) - Sharjah Airport International Free Zone, Sharjah as of March 31, 2007, and its financial performance and its cash flows for the period from inception to March 31, 2007 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Establishment has maintained proper books of account and the physical inventory was properly conducted. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the period of the provisions of the FZE Implementation Procedure under Law No. 2 of 1995, or the Establishment's Articles of Association which might have materially affected the financial position of the Establishment or its financial performance.

Sharjah
May 9, 2007

BALANCE SHEET AT 31ST MARCH, 2007
(In Arab Emirates Dirhams)

	Notes	March 31, 2007
ASSETS		
Current assets		
Bank balances and cash	5	119,185
Accounts receivable	6	388,702
Inventories	7	2,049,775
Total Current Assets		**2,557,662**
Non-current assets		
Property and equipment	8	771,265
Total Assets		**3,328,927**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	9	336,094
Non-current liabilities		
Provision for employees' end of service indemnity		12,921
Total Liabilities		**349,015**
Capital and reserves		
Capital	10	150,000
Accumulated losses		(208,637)
		(58,637)
Owner's current account	11	3,038,549
Total Equity		**2,979,912**
Total Liabilities and Equity		**3,328,927**

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 3 to 16 were approved by the Owner and authorised for issue on May 9, 2007.

Owner

INCOME STATEMENT
FOR THE PERIOD FROM INCEPTION TO MARCH 31, 2007
(In Arab Emirates Dirhams)

	Notes	Period from inception to March 31, 2007
General and administrative expenses	12	(208,637)
Loss for the period		**(208,637)**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM INCEPTION TO MARCH 31, 2007
(In Arab Emirates Dirhams)

	Capital	Accumulated losses	Total
Capital introduced	150,000	–	150,000
Loss for the period	–	(208,637)	(208,637)
Balance at March 31, 2007	**150,000**	**(208,637)**	**(58,637)**

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE PERIOD FROM INCEPTION TO MARCH 31, 2007 (In Arab Emirates Dirhams)

	Period from inception to March 31, 2007
Operating activities	
Loss for the period	(208,637)
Adjustments for:	
Depreciation on property and equipment	32,312
Provision for employees' end of service indemnity	12,921
Operating cash flows before movements in working capital	**(163,404)**
Increase in accounts receivable	(388,702)
Increase in inventories	(2,049,775)
Increase in accounts payable	336,094
Net cash used in operating activities	**(2,265,787)**
Investing activities	
Purchase of property and equipment	(803,577)
Cash used in investing activities	**(803,577)**
Financing activities	
Capital introduced	150,000
Net movement in Owner's current account	3,038,549
Net cash from financing activities	**3,188,549**
Net increase in cash and cash equivalents	119,185
Cash and cash equivalents at the beginning of the period	–
Cash and cash equivalents at the end of the period	**119,185**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period from inception to March 31, 2007

1. **General information**

Balaji Telefilms (FZE) - Sharjah Airport International Free Zone (the "Establishment") was incorporated on September 3, 2006 as a Free Zone Establishment with a limited liability pursuant to the FZE Implementation Procedure under Law No. 2 of 1995 and operates in Sharjah Airport International Free Zone. The address of the registered office of the Establishment is P. O. Box 120660, Sharjah, United Arab Emirates. The Owner of the Establishment is Balaji Telefilms Ltd, India.

The principal activity of the Establishment is telefilm production.

These are the first audited financial statements of the Establishment covering the period from the date of incorporation on September 3, 2006 to March 31, 2007.

2. **Standards and Interpretations issued but not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating segments
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Establishment, other than the detailed disclosure and presentation requirements as per IFRS 7.

3. **Significant accounting policies**

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of financial instruments. For the purpose of the financial statements, the results and financial position of Establishment are expressed in Arab Emirates Dirhams, which is the functional currency of the Establishment and the presentation currency for the financial statements. The principal accounting policies adopted are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts.

The revenue from the television serials/programmes is recognised as and when the relevant episodes of the programmes are delivered to the channel for telecast in terms of the agreement/MOU with them for exploitation in the defined territory.

Foreign currencies

Transactions in currencies other than the Establishment's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

* Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
* Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
* Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Leasing

All of the Establishment's lease contracts are of an operating lease nature and are accounted for as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the UAE labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of property and equipment, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible assets

At each balance sheet date, the Establishment reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Establishment estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCEPTION TO MARCH 31, 2007

amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories comprise tapes and television serials and are stated at the lower of cost and net realisable value. Cost is determined using first-in-first-out method for tapes and average method for television serials. Net realisable value is determined after estimating total revenue from worldwide exploitation of its rights of the serial. If net expected revenue is less than unamortised cost, the same is written down to net expected revenue.

Provisions

Provisions are recognised when the Establishment has a present obligation (legal or constructive) as a result of a past event, it is probable that the Establishment will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial assets

Accounts receivables

Accounts receivables are measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. **Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the Establishment's accounting policies, which are described in Note 3, management has made judgements that have the most significant effect on the amounts recognised in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

5. **Bank balances and cash**

	March 31, 2007
	AED
Cash on hand	5,616
Current account with banks	113,569
	119,185

6. **Accounts receivable**

	AED
Prepaid expenses	334,167
Deposits and other receivables	54,535
	388,702

7. **Inventories**

	AED
Television serials	2,049,775

Cost of production for television serials includes production costs amounting to AED 904,356 incurred by Balaji Telefilms Ltd., India, a related party, on behalf of the Establishment.

8. **Property and equipment**

	Studios and sets	Office equipment	Total
	AED	AED	AED
Cost			
Additions	787,659	15,918	803,577
At March 31, 2007	**787,659**	**15,918**	**803,577**
Accumulated depreciation			
Charge for the period	31,658	654	32,312
At March 31, 2007	**31,658**	**654**	**32,312**
Carrying amount			
At March 31, 2007	**756,001**	**15,264**	**771,265**

The following useful lives are used in the calculation of depreciation:

	Years
Studio and sets	3 – 5
Office equipment	3

9. **Accounts payable**

	March 31, 2007
	AED
Accrued expenses	185,279
Other payables	150,815
	336,094

10. **Capital**

The capital of the Establishment comprise one share of AED 150,000.

11. **Owner's current account**

Owner's current account represents amounts due to Balaji Telefilms Limited, India.

12. **General and administrative expenses**

	Period from inception to March 31, 2007
	AED
Staff costs	4,745
Rent	58,333
Professional fees	18,000
Foreign exchange loss	33,458
Other expenses	94,101
	208,637

13. **Related party transactions**

During the period, the Establishment entered into the following transactions with related party:

	AED
Production costs for television serials	904,356

14. **Management of financial risk**

Exchange rate risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or US Dollars to which the Dirhams is fixed.

Credit risk

The Establishment's principal financial assets are banks' current account and accounts receivables.

The credit risk on liquid funds is limited because the counter party is a bank with high credit ratings assigned by international credit-rating agencies.

There are no significant concentrations of credit risk to debtors inside or outside the industry in which the Establishment operates.

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, may contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate,' 'estimate,' 'expects,' 'projects' 'intends,' 'plans,' 'believes,' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.*

* All trademark or logos used in this report are the registered mark of respective owners and are used in this report for illustrative purposes only.

Corporate information

Directors
Jeetendra Kapoor
Shobha Kapoor
Ekta Kapoor
Tusshar Kapoor
Akshay Chudasama
Dhruv Kaji
Pradeep Kumar Sarda
John Yu Leung Lau
Paul Aiello

Company Secretary
Alpa Khandor

Statutory auditors
Deloitte, Haskins & Sells
Snehal & Associates

Internal auditors
PSK & Associates

Registered office
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opposite Laxmi Industries,
New Link Road, Andheri (West),
Mumbai – 400 053
Tel: +91 22 4069 8000
Fax: +91 22 4069 8181
Website: www.balajitelefilms.com

Regional offices
Chennai: Plot no. 38, KK Salai
Kavery Rangam Nagar,
Saligramam, Chennai – 600 093

Bangalore: Plot no. 2058
19th Main Road, 2nd Block,
Rajaji Nagar, Bangalore – 560 010

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Perumthanni, Vallakkadavu, P.O.
Trivandrum – 695 008

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