Balaji Telefilms Limited

www.balajitelefilms.com

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From good to great!

Balaji Telefilms Limited Annual Report 2005-06

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, 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.

Contents

Brand identity

Balaji Telefilms is the number one entertainment software provider in potentially the second largest television entertainment market in the world

- India's leading television content brand
- Largest entertainment software production house in India
- More than a successful player; credited with having redefined the business space
- Enjoys a leading share of India's small screen content-providing business
- Shares listed on the Mumbai and the National Stock Exchanges
- Promoted by veteran Indian actor Jeetendra Kapoor, his wife Shobha Kapoor, daughter Ekta Kapoor and son Tusshar Kapoor; promoter family owns 42% of the Company's equity

What a year at Balaji!

We produced more
- 23% increase in programming hours from 1720 in 2004-05 to 2113 in 2005-06
- Seven new programmes launched
- Extension into the non-fiction space

We realised more
- 26% increase in commissioned programme realisations from Rs. 17.70 lacs per hour to Rs. 22.22 lacs per hour

We were viewed more
- Presence of 22 of its programmes in the top 25 across Hindi cable and satellite channels

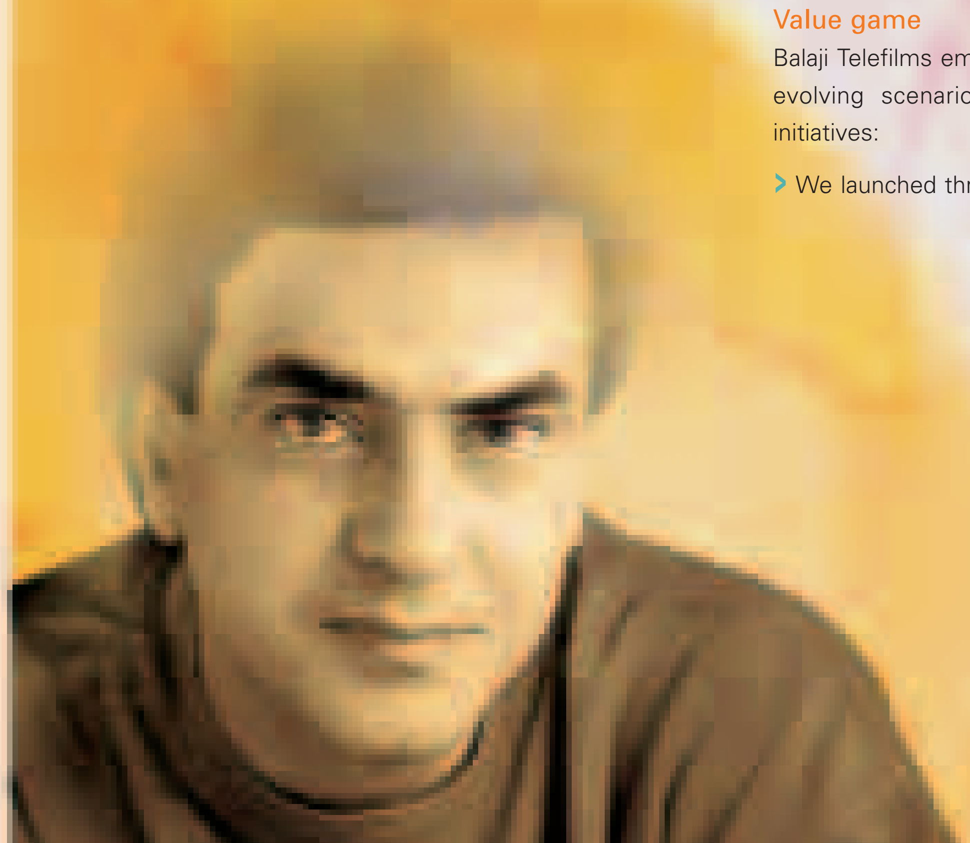
We generated more
- 43% increase in revenues from Rs. 19675 lacs in 2004-05 to Rs. 28037 lacs
- 41% increase in profit before tax from Rs. 6237 lacs in 2004-05 to Rs. 8798 lacs
- 44% increase in profit after tax from Rs. 4129 lacs in 2004-05 to Rs. 5942 lacs

We invested more
- Investment of Rs. 1090 lacs in three new state-of-the-art studios in Mumbai

We enriched more
- 108% increase in the Company's market capitalisation to Rs. 120542 lacs (as on 31st March 2006)

"We expect to emerge as the single biggest beneficiary of the CAS environment!"

Jeetendra Kapoor, *Chairman*, Balaji Telefilms, reviews 2005-06



After two years of a relatively flat performance, I am pleased to report an attractive rebound at Balaji Telefilms for 2005-06.

The Company grew its topline by 43%, bottomline by 44% and market capitalisation by 108% during the year under review, indicating that it had enhanced value for its shareowners across a number of parameters in a comprehensive way.

Industry challenges

It might be tempting to believe that the Company's performance improved in line with the general economy; in my mind, the rebound was the result of some proactive initiatives by the Company in the face of changes in the way we live, work and entertain ourselves.

Consider the following:

- Most consumers are confused with the sharp increase in the number of channels on offer; this has reduced viewer recall
- Most viewers are getting increasingly selective about what they want to watch; the general approach in content creation is out
- Most people have a larger number of choices about what to do with their time today; this is making it difficult to predict viewer habits
- Most employees are working harder and longer; they can barely catch an episode or two especially if it is early in the prime time cycle

Value game

Balaji Telefilms embarked on a value-led response to this evolving scenario in 2005-06 through the following initiatives:

- We launched three new programmes in the sponsored category and four new shows in the commissioned category
- We translated our position as Star's leading content supplier into attractive revenues, and strengthened our spread across more channels on favourable terms
- We extended beyond the small screen to the big screen with films like Kya Kool Hain Hum and Koi Aap Sa, capitalising on our established infrastructure

Industry changes

Looking ahead, the biggest change in the business is going to be the nationwide introduction of the conditional access system (CAS). This is going to translate into the following changes:

Consumer: Greater influence in demanding niche content

Channel: Gradual evolution from general to niche themes; bouquet pricing to specific pricing; greater emphasis on widening reach and influencing advertising rates; greater ability to price in line with the demand for the programme

Content creator: Closer linkage between content and revenues; greater willingness to work with channels with wider and deeper marketing; better ability to negotiate rates based on viewership; movement from general to niche content

As we see it at Balaji Telefilms, the transition from an advertiser-driven revenue to a pay-TV model will only strengthen the market for companies with superior content creation capability.

Outlook

Interestingly, we see Balaji Telefilms emerging as perhaps the single biggest beneficiary of this transition for a number of reasons:

- We expect Hindi to remain the preferred language of entertainment for India's masses – within and outside the country
- We expect Balaji to retain its position as the primary Hindi entertainment content Company, having accounted for 88% of the most viewed programmes in 2005-06

I thank you for your continued support over all these years which has helped the Company reach this enviably strong position in the industry.

With regards,

Jeetendra Kapoor
Chairman

Good to great!

Most businesses targeted a simple turnover growth over the previous year.

Balaji Telefilms took only 9 months of 2005-06 to surpass its 12 month turnover of 2004-05.

What you see in a minute takes us weeks to conceptualise. So the truthful reality in the business of entertainment software is that production increase is not as simple as pressing a button and collecting products off the conveyor belt.

At Balaji Telefilms, we are proud to report that in a painstaking 2005-06, we increased content production by 19% over the previous year.

Good to great!

Most businesses continued to fight for shrinking market share.

Balaji Telefilms accounted for 22 of India's top 25 programmes (Hindi cable and satellite channels) in 2005-06.

Look around you, competition is increasing in every business. The pioneers of yesterday are in a number of instances also evolving into the commodities of tomorrow.

At Balaji Telefilms, we are proud to report a completely different reality. Even after nearly eleven years of presence, we actually increased our share of the market, not just protected it.

So even as our industry evolved from nascent to mature, Balaji Telefilms occupied every single slot between number one and 21 in one of the world's fastest growing entertainment software market in 2005-06. A domination perhaps unparalleled across most visible businesses in India today.

"De-risking at a time of growth!"

Shobha Kapoor, *Managing Director and CEO*, Balaji Telefilms, reviews the financial year 2005-06

At Balaji, profits have rebounded after a gap of two years and shareholders want to know whether this is the beginning of the end?

From a positive perspective, I definitely want to bring to the attention of our shareholders that the year 2005-06 represents the beginning of the end of our stagnation. In the report of 2004-05, we had indicated that there would be a profit upturn for a number of reasons: an increase in programming appetite created by the launch of new channels and an increase in our ability to service this demand through wider recruitment and new studio commissioning.

As it turned out, we invested Rs. 1311 lacs in our physical infrastructure and grew our people strength during the last two years well before any new business had actually come in. Our foresight and faith in the long-term bullishness of our business was vindicated; the Company reported a 43% increase in its topline and a 44% jump in its bottomline during the year under review.

What were the highlights of the Company's working in 2005-06?

In one word, de-risking. In our business, where consumer preference is influenced by hundreds of variables – it could be something as trivial as a traffic jam – we widened our exposure across newer channels, geographies, time slots and formats. While an exhaustive review of our de-risking process has been explained in the risk management section, it would be pertinent to indicate here that the central idea is to leverage the presence of the most successful channel (Star TV) concurrent to spreading our risk across other channels as well; our emphasis has also been to ride the strength of India's prime time slot while opening up other non-evening slots as well; while we continue to generate the maximum revenues from soap content, there is a visible slant in moving to other genres; similarly, while we are principally invested around the Hindi language, there is an internal direction on extending to regional languages. At Balaji, this de-risking represents good business; we generated 1090 hours of programming through new genres, channels and languages, which accounted for 14% of our turnover during the year under review. So evidently, the de-risking is replenishing and rejuvenating the Company.

What is the single index of the Company's success in 2005-06?

Good question and here let me give you two indices of our success in 2005-06 – one, the fact that Balaji accounted for 22 of India's top 25 programmes across the Hindi cable and satellite channels; and two, the fact that we generated a 18% increase in realisations per hour, the highest earned by any content provider in our business in the country and around three times the industry average. The latter is related to the first: in fact, increase in realisations transpired only because Balaji was instrumental in its channel customers reporting higher TRPs and in turn, generating incremental advertising revenues. As a result, both Star Plus and SET (primary customers) are today as much dependent on Balaji for their content (and hence advertising revenues) as we are on them for purchasing our content. A mutually dependant business model!

Where does the Company expect to move from here?

New genres. For years, the Balaji brand has been associated with soap content; we expect to evolve this to new business lines like animation, non-fiction content, ad films and mythological programmes. We are optimistic that with India emerging as an attractive outsourcing hub for animation, our established infrastructure and industry position will serve as relevant foundation for growth in this new area.

What is the biggest challenge facing the Company?

In the emerging conditional access system (CAS) environment, our key customers (broadcasters) could well prune their programming budgets, affecting our realisations and growth. We will counter this challenge through superior content production for these media.

What is the outlook for 2006-07?

I think the entertainment industry in India is at an inflection point; two of the biggest influences will be how content will be delivered to the consumer and how revenues will be earned. Let us take the first: the launch of varied distribution platforms - DTH, IP-TV and DSL - is expected to reshape the industry landscape in the form of competition in the last mile, influencing cable and satellite penetration and subscription revenues. This means that the viewer will have the option of selecting specific channels, enhancing her control on what is beamed into her residence. In this respect, we are probably better placed than our competitors because the TRPs clearly indicate our superiority in this area.

Secondly, my understanding is that subscription rates in India are already among the lowest in the world, which rules out any possibility of a decline; besides, growth in television advertising is expected to outperform Indian GDP growth by at least 500 basis points over the coming years. So I can say that we have a robust foundation to build on.

What is that single initiative that will transform this industry challenge into an opportunity for the Company?

There is no one single initiative; we will have to reinvent the Company across a number of fronts to remain pioneers: for instance, we expect to grow our programming hours, fill vacant time slots, pioneer prime time slots and widen our presence across genres, channels and languages. So much for the content side of our business. We will continue to invest in assets, equipment and people with a view to reduce costs and enhance capabilities, resulting in a sustainable enhancement of value for those who own our Company.

Most competitive businesses worked with stable or declining realisations.

Balaji Telefilms reported a 18% increase in average realisations during 2005-06.

In non-cyclical businesses, the rule of the day is to make up through volume what one may lose out by value.

At Balaji Telefilms, we are proud to report a 'double-play' – increased programming hours and enhanced average realisations.

This transpired because Balaji Telefilms continued to deliver a better product and reinforce the business of its customers during 2005-06 – the second straight year when the Company reported an increase in revenue per hour.

Most peer businesses endeavoured to retain audience during the predictable hours.

Balaji Telefilms got them addicted during the non-usual as well.

There is too much of everything today, except time.

And that's because even though most people may not have frozen their 'appointment' pages to the last detail, they will tell you what they will be doing months from now: 'with friends on Saturday afternoon' and 'with kids on Saturday evening'.

In this difficult-to-find-the-time environment, our most effective achievement is that we induced thousands of people across India to draw a red line across one page on their diaries. Saturdays. By pioneering an absolutely new weekend prime time slot.

- For years, most of Balaji's successful soaps were telecast across four days of the week; it dared to introduce a Friday extension for three of its seven serials on Star Plus - *Kasautii Zindagii Kay*, *Kyunki Saas Bhi Kabhi Bahu Thi* and *Kahiin to Hoga* - which extended programming by one-and-a-half hours a week
- Balaji started three new shows in the sponsored category and four new shows in the commissioned category in 2005-06; it commenced new episodes of *Hum Paanch* and *Kasamh Se* on Zee TV (after a gap of three years); *Kankkana* on DD-Chandana; *Kyaa Hoga Nimmo Kaa* on Star One; *Kandy Floss* on Sony; *Kalyanee* on Gemini TV and *Pavithra Bandham* on Surya TV
- In making profitable extensions, Balaji reinforced its longstanding position as India's largest entertainment content provider with an approximate average of 41 hours of weekly programming

"We have de-risked the Company by creating a second-tier of creative backup!"

Ekta Kapoor, *Creative Director,* Balaji Telefilms, outlines the key creative highlights of the Company in 2005-06

In this business of show business, there is nothing more temporary than viewer attention. How then do you explain that Balaji's serials dominated 22 of the top 25 programmes in Hindi cable and satellite channels (TAM ratings on 31st Dec 2005)?

The three magic initials of 'I', 'C' and 'D' – Insight, Creativity and Discipline. When some of our shareholders ask how Balaji has been able to retain viewer attention despite the challenges, they do so from a position of relative unawareness – no offence meant – of how the creative process works.

In my opinion, creativity is not something that happens by chance, though that is often a fashionable description of the process. At Balaji, we do not wait for the muse. Creativity is a discipline wherein we combine an insight into how the viewer mindset works with an ability to produce exactly what he would like to see. I am greatly convinced that the harder one works at a structured process towards creativity, the easier one arrives at the right flashes, which is one way of saying that the harder one works, the luckier one gets.

Does that sound too predictable a reply? Okay, let me put it this way: we simply speak to our audience more frequently, we map what they are thinking at a particular moment, we recognise what they would like to see and present it with the usual twists and turns of creative storytelling. Sounds simple but it is not.

A disturbing reality is a growing disenchantment with just about everything in life, television episodes included. As a creative head, how do you respond to this?

I agree that this is a disturbing development and let me not brush this under the carpet by saying that we have just the answer to this problem. On the contrary, let me dwell on why this is a scarier reality in our business than most others: if you go through the creative trough and lose your marbles for even a fortnight, the audience will perhaps shift to the next line of interest – could be the iPod, the mall, the latest shopping offer, the newspaper or even sleep. I mean we are competing in real time with the largest competitive array you can think of. No business – and I mean no business – in the world competes with such a wide range of variables like we do, simply because we address the most volatile reality in the world today – human attention.

Now let me get back to your question…how do we – or I – respond to this. We think we work harder than anyone in our business to ensure that we do not get driven into oblivion with the switch of a button. And we work harder at getting to the heart of an idea that is contemporary and

> "Creativity is a discipline wherein we combine an insight into how the viewer mindset works with an ability to produce exactly what he would like to see."

thought-provoking. The idea is that if the viewer goes to bed with the drift of the serial still swirling in her head and her sleep is delayed by a few minutes by the thought of what she saw in the Balaji serial, then there is every possibility that she is going to get back the next evening to find out how the serial evolved.

This brings us to the next question. It is relatively easy to make soap content if that is what you have been doing for years. But what happens when a channel suddenly asks you to make a comedy programme, a murder mystery or a reality show? How do you manage success across different formats?

The idea is to make things more difficult for ourselves before competition does so. And here I will say that the key to true success is the ability to extract the fundamentals of success in one format and apply them across the others. So gradually our understanding of soap content extended us to reality shows, non-fiction, youth programmes, thriller shows and commercial filmmaking (*Kya Kool Hain Hum*, May 2005 and *Koi Aap Sa* in October 2005).

One relevant question here. The job market is more volatile than ever before in the history of India. How do you manage attrition?

Good question and here again, let me not brush this question under the rug by saying that we have a fix on this and have been completely unaffected. However, I will say that things could have been worse had it not been for two things - the fact that we are systems-directed has helped enhance a sense of pride in the people who work here that this is indeed a place where they can grow intellectually and financially; and the fact that we run a pretty well delegated organisation increases a sense of control and ownership.

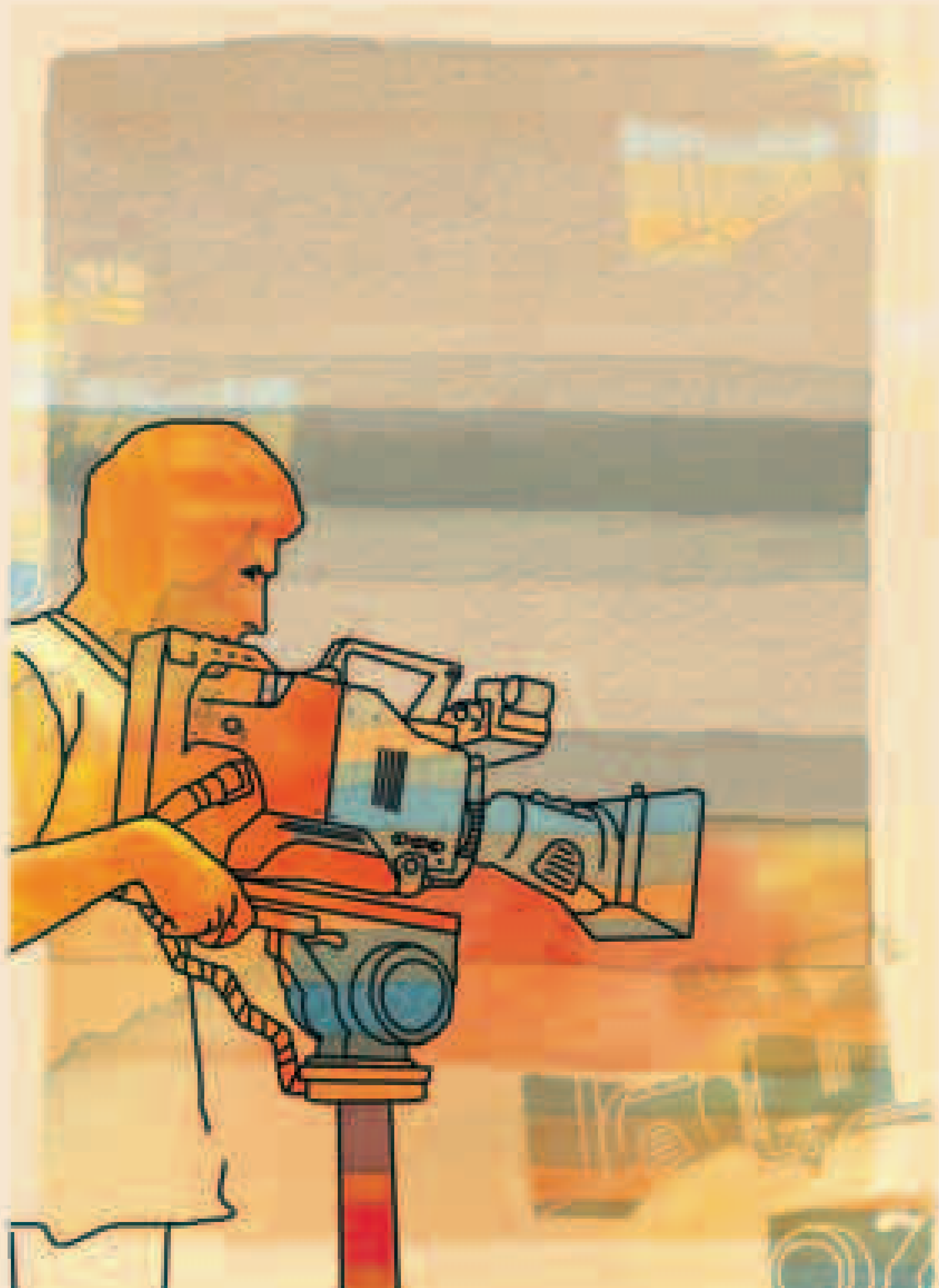
Back to a related question. Shareholders still want to know whether Balaji is Ekta and Ekta is Balaji.

This used to be true at one point in the history of our Company but when the Company gets bigger, there is a physical limitation on what I can do. So much of the delegation is induced completely out of need. I must be honest to state that much of the delegation is now also induced from a need to grow the organisation. As a result, over the last few years, we have created a second creative tier protected by fixed, inflexible KRAs coupled with adequate intellectual freedom for them to extend well beyond their stated expertise or basis of appointment. It works!

What is your big challenge going into 2006-07?

There was a point in the history of Balaji when the big challenge was proving that soaps could be profitable. Then there came a time when we needed to demonstrate that we could reconcile scale with quality. Now the big priority is innovation: I expect to launch one of my biggest soaps towards the year-end; I hope to lure urban audiences into watching Zee through my new soap *Kasamh Se*; my biggest challenge in 2006 is *Kya Hoga Nimmo Kaa* on Star One through which Balaji will enter a new genre of youth programming. So life is still young and exciting at Balaji!

> **“Our understanding of soap content extended us to mature programming, reality shows, non-fiction, youth programmes, thriller shows and commercial filmmaking.”**



In the entertainment software business, companies continued to invest in intellectual capital.

Balaji Telefilms made the industry's biggest investment in physical assets as well.

When most players in the business of entertainment software continue to invest only in people, people and people, Balaji Telefilms has moved its competitive edge into the next league by investing in places and equipment as well.

While on the one hand, the Company recognised that the most effective pooling of intellectual capital would translate into value-addition, on the other hand it was convinced that an investment in structural capital would translate into a cost decline.

This investment in studios and equipment helped the Company in two ways: accelerated project turnaround time, induced a more efficient coverage of fixed costs and therefore strengthened the Company's return on gross block.

- An investment of Rs. 1311.17 lacs in captive equipment, studios (three) and editing infrastructure in 2005-06
- A corporatisation of internal practices marked by selective outsourcing of property and equipment, disciplined purchase process and vendor rationalisation
- A controlled budgeting process based on retrospective costs and prospective volumes

The television entertainment space is getting bigger and its audience more fragmented.

Balaji Telefilms is countering this phenomenon by widening its presence across new genres, channels and languages.

Tastes and preferences are changing faster today than ever before. What we watched yesterday is passé; what we will watch tomorrow is still hazy.

This is a busy time for television entertainment content producers. Studying societal trends. Ascertaining how interests might change. And how viewers would like to spend their time.

Balaji embarked on the following:

- Youth programming in *Kyaa Hoga Nimmo Kaa* on Star One
- Ventured into reality-based lifestyle programming with TV magazine *Kandy Floss* on Sony TV which also has an animated co-host

Balaji programmes, 2005-06

Programme	Channel	No. of days	Specified days	Time band (starts)	Time band (ends)
Kalyanee	Gemini TV	5 Days	Mon - Fri	19:30	20:00
Kanyadaana	Udaya TV	5 Days	Mon - Fri	18:00	18:30
Kumkuma Bhagya	Udaya TV	5 Days	Mon - Fri	18:30	19:00
Kadambarii	Udaya TV	5 Days	Mon - Fri	19:30	20:00
Kanavarukaaha	Sun TV	5 Days	Mon - Fri	22:30	23:00
Pavithra Bandham	Surya TV	5 Days	Mon - Fri	18:30	19:00
Kavyanjali	Surya TV	5 Days	Mon - Fri	20:30	21:00
Kankkana	DD-Chandana	5 Days	Mon - Fri	17:30	18:00
Kyunki Saas Bhi Kabhi Bahu Thi	Star Plus	5 Days	Mon - Fri	22:30	23:00
Kahaani Ghar Ghar Kii	Star Plus	4 Days	Mon - Thur	22:00	22:30
K. Street Pali Hill	Star Plus	4 Days	Mon - Thur	23:30	00:00
Kasautii Zindagii Kay	Star Plus	5 Days	Mon - Thur	20:30	21:00
Kahiin To Hoga	Star Plus	5 Days	Mon - Fri	23:00	23:30
Kavyanjali	Star Plus	4 Days	Mon - Thur	21:30	22:00
Kesar	Star Plus	4 Days	Mon - Thur	14:00	14:30
Kaisa Ye Pyar Hai	Sony TV	4 Days	Mon - Thur	20:00	20:30
Kandy Floss	Sony TV	1 Day	Fri	23:00	23:30
Kasamh Se	Zee TV	5 Days	Mon - Fri	21:00	21:30
Kyaa Hoga Nimmo Kaa	Star One	4 Days	Mon - Thur	22:00	22:30

Balaji content: share of channels

- Kyunki Saas Bhi Kabhi Bahu Thi
- Kahaani Ghar Ghar Kii
- K. Street Pali Hill
- Kasautii Zindagii Kay
- Kahiin To Hoga
- Kavyanjali
- Kesar

- Kanyadaana
- Kumkuma Bhagya
- Kadambarii

- Kaisa Ye Pyar Hai
- Kandy Floss

- Kasamh Se

- Pavithra Bandham
- Kavyanjali

- Kalyanee

- Kankkana

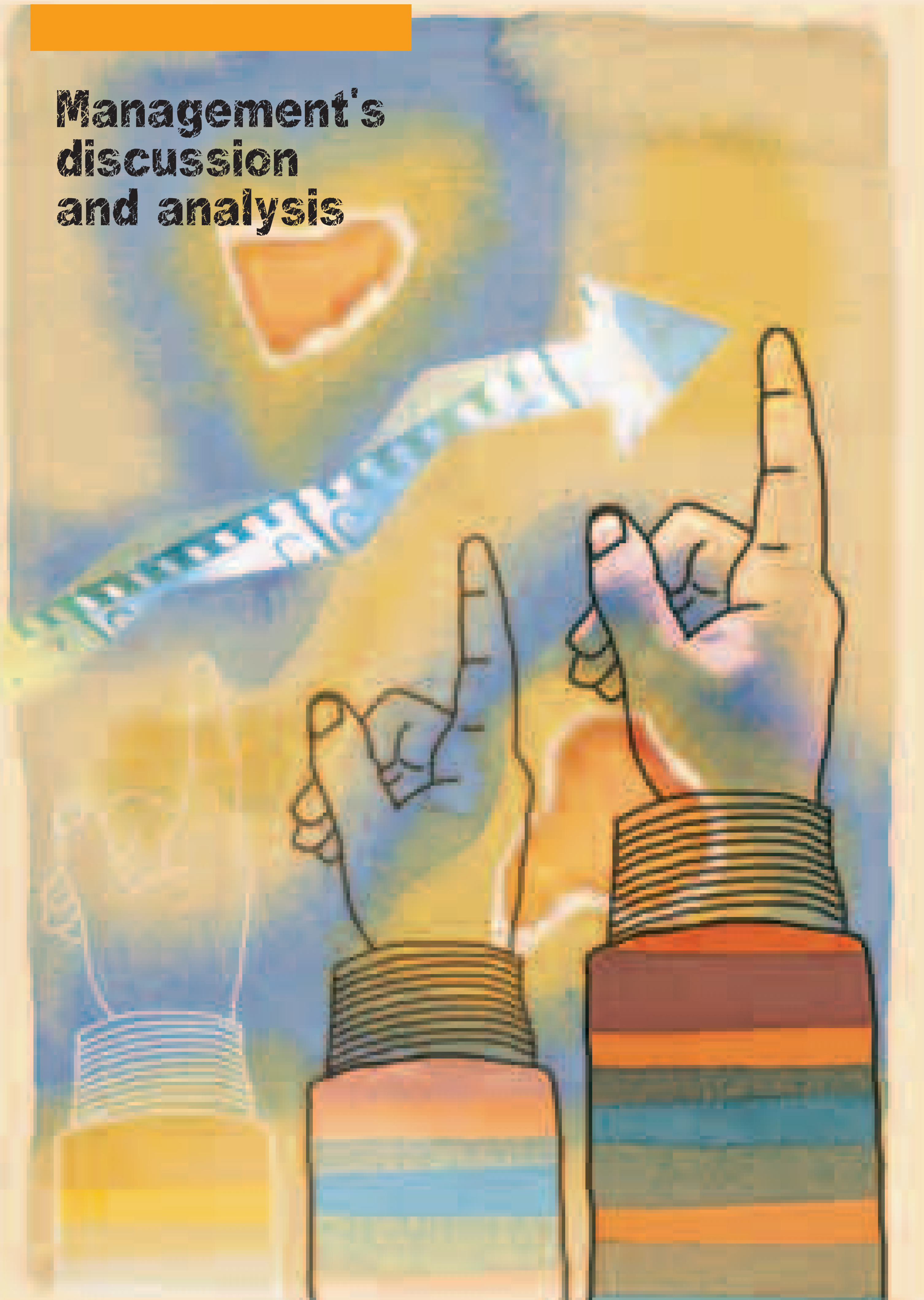
- Kanavarukaaha

- Kyaa Hoga Nimmo Kaa

Prime-time share in channels

14.00-14.30	Kesar *Mon-Thurs*
17.30-18.00	Kankkana *Mon-Fri*
18.00-18.30	Kanyadaana *Mon-Fri*
18.30-19.00	Kumkuma Bhagya *Mon-Fri*; Pavithra Bandham *Mon-Fri*
19.30-20.00	Kadambarii *Mon-Fri*; Kalyanee *Mon-Fri*
20.00-20.30	Kaisa Ye Pyar Hai *Mon-Thurs*
20.30-21.00	Kavyanjali (Surya) *Mon-Fri*; Kasautii Zindagii Kay *Mon-Thurs*
21.00-21.30	Kasamh Se *Mon-Fri*
21.30-22.00	Kavyanjali *Mon-Thurs*
22.00-22.30	Kyaa Hoga Nimmo Kaa *Mon-Thurs*; Kahaani Ghar Ghar Kii *Mon-Thurs*
22.30-23.00	Kanavarukaaha *Mon-Fri*; Kyunki Saas Bhi Kabhi Bahu Thi *Mon-Fri*
23.00-23.30	Kahiin To Hoga *Mon-Fri*; Kandy Floss *Fri*
23.30-00.00	K. Street Pali Hill *Mon-Thurs*

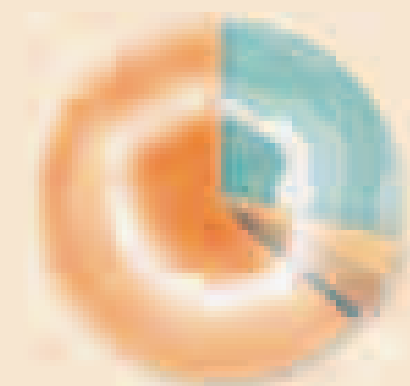
Management's discussion and analysis



Industry structure

The health of the Indian entertainment industry is largely influenced by the economic health of the nation. Given the robust growth of the Indian economy – GDP growth in excess of 8.4% in 2005-06 – the Indian entertainment industry grew in terms of volume (programming hours) and value (programming revenue) during the year under review. Though precise numbers are not available, the industry is currently estimated at INR 222 billion. Television is the Indian entertainment industry's fastest growing face, accounting for an estimated 62% of the industry's growth. Films contributed 27%, while segments like music, radio, live entertainment and interactive gaming accounted for the remaining 11%.

Indian entertainment industry, 2005 *(Rs. cr)*



Indian television industry

With total revenues of INR 139 billion, television is the goliath of the entertainment industry. A couple of important factors have driven its growth over the last decade – the privatisation of India's television industry, increase in the number of players (channels) and a corresponding growth in the number of entertainment software providers.

The result: From a zero presence at the start of the Nineties, the private operators (non-government) account for more than 60% of the industry's revenues today; there is a growing professionalism within the sector reflected in corporatisation across service providers.

As the television sector moves into a CAS (conditional access system) and DTH (direct to home) environment, the segment is expected to grow even faster to a projected INR 371 billion by 2010 (KPMG estimate).

Industry drivers

The growth of India's entertainment sector is driven by a number of factors, which have been discussed in detail in the following paragraphs:

Key drivers

Segment-wise composition of the entertainment industry *(INR billion)*

Segment-wise break-down	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Television	122	139	164	189	228	266	325	371
Film	52	59	69	83	99	114	129	143
Music	10	10	10	11	11	11	12	13
Radio	2	2	3	4	5	6	7	8
Others (live entertainment, interactive games, etc.)	9	11	16	23	30	39	48	60
Gross unadjusted revenues	195	222	261	309	373	436	521	595
Less: overlap (sale of film broadcast and music rights) netted off	7	6	7	8	11	13	16	18
Add: overseas distributors' margin from sale of Indian films	8	8	8	7	8	9	10	11
Entertainment revenues at retail value	**196**	**222**	**262**	**309**	**371**	**432**	**515**	**588**

Note: The summation of the figures may not match due to rounding off
Source: KPMG Research

India's entertainment industry is expected to grow from Rs. 22,000 cr in 2006 to Rs. 45,000 cr by 2009.

Subscription revenues

What the viewer will pay in the form of subscriptions for the specific channels he wants to watch will influence the growth of India's television industry over the coming decade. In the short-term, subscription growth is being projected at 14%, primarily from growth in the number of cable and satellite households (expected to grow by 8%) and higher realisations. Thereafter, corrections in the regulatory mechanism are expected to pave the way for addressability in cable distribution and drive growth in digital distribution formats like DTH and other emerging platforms (IP-TV). As this trend matures, premium subscriptions for value-added services are expected to drive the growth in subscription revenues. This will also result in increased demand for content from these new media.

Declared revenues   Undeclared revenues

Source: KPMG Research

Consumerism

Over the last few years, disposable income has been rising like never before in India; it is estimated that between 1995 and 2002, nearly 100 million individuals joined India's rich and consuming classes and over the next five, 180 million individuals will enter this segment. On an average, annually 30 to 40 million individuals are joining India's middle-class – already the largest of its kind in the world by sheer numbers – translating into a huge spending on mobile phones, televisions, music systems and other similar products, following a consumption pattern typically associated with rising income.

This phenomenon is also accelerating the growth of India's entertainment sector. The growth of India's entertainment sector is being catalysed by the rural market comprising 128 million households, nearly three times that of urban India, the consuming class estimated at over 40% of India's middle-class and accounting for over 50% of the total disposable income. So far, this segment has remained largely untapped for accessibility and affordability reasons, but this is fast changing as a result of growing affluence, good monsoons and increased agricultural output.

Advertising growth

Advertising spending in India is directly linked to the growth in GDP. A reasonable estimate of its sensitivity to economic growth places it at least 500 basis points over the GDP growth across the foreseeable future. In view of the country's projected GDP growth, advertising spending is expected to grow 12-14% over the next five years to over Rs. 9,400 cr by 2009.

This increase in advertising spending is expected to strengthen broadcaster revenues and, in turn, content producers' revenues. Besides, the delivery of content over new wireless delivery formats is expected to open up a new avenue for advertising.

Pure advertising time for every hour of programming in India

Source: TAM Media Research

Technology

Technology will emerge as the entertainment industry driver into the next decade. In the emerging environment, boundaries are expected to blur between the entertainment, telecommunication and IT segments resulting in the emergence of value-added features for consumers and revenue for players.

The television industry will move towards digitisation, which in turn will influence viewership patterns. Success in animation and gaming will be driven by co-productions and securing rights over the produced content. This technology-intensive industry will migrate to being at par with global standards, not only in terms of technological advancements but also in terms of the creation of original content.

In the entertainment industry, content ownership will influence competitive edge; in such an environment, regulatory adaptations will facilitate the industry's growth.

Regulation

In India, most segments of the industry have grown to their present structure and size in a largely unregulated environment. However, in the media market, a consultative process has been used in influencing regulatory action. Such growth has resulted in the creation of last mile monopolies in cable television, established through informal agreement among the unorganised last mile operators.

However, a sustainable growth in the circumstances will be difficult without facilitating regulation. Such changes are being necessitated by the following realities:

- Dearth of consumer choice in several segments of the industry value chain, most notably in the last mile of cable distribution
- Piracy-related revenue and tax leakages across all segments of the entertainment industry
- Need to establish a level playing field for new distribution platforms like DTH, broadcasting and digital film

Pricing

India has the potential to become an attractive destination for international broadcasters and production houses - despite the low income per capita – on account of its large population. However, while prices are significantly lower in India than in other parts of the world, volumes have been historically restricted by the fragmentation in the distribution chain. Subscriber declaration by cable distributors to broadcasters in India has been low, resulting in an inequitable distribution of subscription revenues. According to independent research, the operator-broadcaster split of subscriber revenue in India

Niche genres are becoming increasingly popular and as a result, more entrants are expected in spaces like animation and business and lifestyle among others. Balaji is already proactively exploring a number of these niche areas.

reflects possibly the worst skew in the world. Low declarations have been attributed to a lack of transparency in the last mile distribution end of the business, controlled by 30,000-odd local and national cable operators.

Distribution of revenues *(in percentage)*

Market	Operator	Broadcaster
United States	60	40
United Kingdom	63	37
Australia	65	35
Japan	65	35
India	83	17

Source: Media Partners Asia

Content trends

The size of India's television software sector, which supplies programming content to broadcasters, is currently estimated at INR 28 billion. Its growth has been influenced by the following: an increasing number of programmes on prime time, a swell in the number of hour long weekly programmes, enhanced consumer interest in niche content and an increased global use of Indian content libraries.

It is expected that while mainstream entertainment programming will continue to be the bulwark of Indian television, genres like news, sports, children and special interests (religion, home and health, etc.) will account for an increasingly important proportion of the content pie.

Changes

Additional distribution platforms

The last mile of television distribution will see considerable action in the foreseeable future due to the entry of new direct to home (DTH) broadcasters, internet protocol-based television (IP-TV) and broadcasting services using digital subscriber line (DSL) technologies etc. These developments will also give broadcasters direct access to consumers, providing not just routine content but also customised value-added services (video on demand). Presently, the distribution of subscription revenues is skewed towards the cable operator due to lack of transparency in the declaration of subscribers by the local cable operator to the television broadcaster. The introduction of these new platforms and the consequent addressability will facilitate a more equitable distribution of revenues, which should strengthen broadcaster revenues and enhance income for content providers like Balaji.

More entrants in niche genres offering additional content variety to the viewer

Niche genres are becoming increasingly popular and as a result, more entrants are expected in spaces like animation and business and lifestyle among others. Balaji is already proactively exploring a number of these niche areas.

Liberalised regulatory intervention

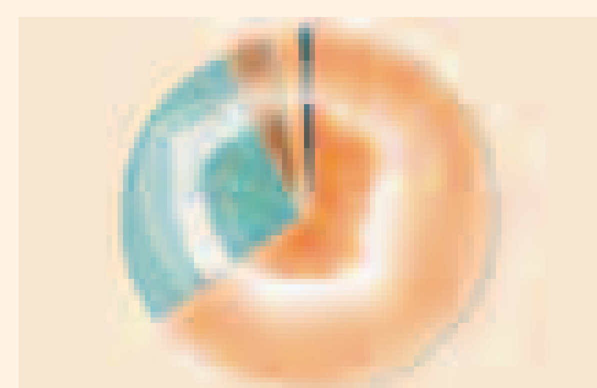
A beginning has already been made in this direction through an amendment of the Telecom Regulatory Authority of India Act. This is expected to deliver addressability in the currently fragmented distribution market, thereby increasing the broadcaster's share of revenue and participation which should, in turn, strengthen revenues for a content provider like Balaji.

Outlook

The future of the entertainment industry will be a function of the interplay of each of the above factors – namely consumerism, advertising spend, content, pricing, technology and regulation. A precise estimation of the industry size over the next 5-10 years will require a crystal ball, given the number of variables involved. However, based on current trends, the industry is expected to grow annually by 18% and breach the INR 500 billion barrier in five years. The trickle-down effect of this phenomenon is likely to enlarge the number of television channels, widening the market for a focused content provider like Balaji.

Importantly, the industry is entering its second phase of growth. This phase will be driven by technology and influenced by quality infrastructure and digital connectivity penetration. It is the industry's opinion that this phase will need to be supported by an enabling tax and regulatory infrastructure on the basis of its attractive long-term potential.

Projected growth - 2009 *(Rs. cr)*

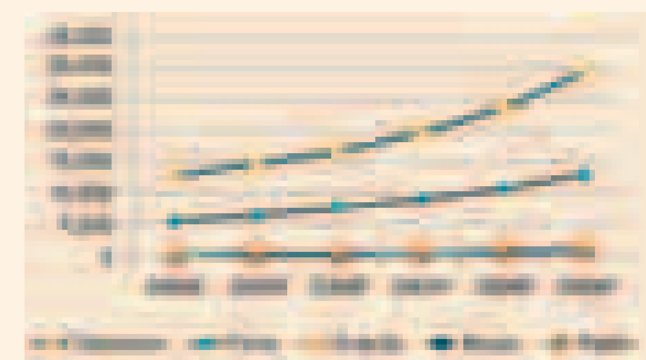


Television 65% Films 28% Live Events 4%
Music 2% Radio 1%

The industry is expected to grow annually by 18% and breach the INR 500 billion barrier in five years. The trickle-down effect of this phenomenon is likely to enlarge the number of television channels, widening the market for a focused content provider like Balaji.

Source: Industry Estimates and PwC Analysis. Note: The figures taken above include only the legitimate sales in each segment. Revenues from the animation and gaming segments have not been included in the entertainment industry size as these have traditionally been included in the Indian IT and software revenues.

Projected growth in the Indian Entertainment Industry *(Rs. cr)*



Source: Industry Estimates & PwC Research

The proposed introduction of a number of channels augurs well for focused content creators like Balaji Telefilms:

- **Zee:** 24-hour comedy channel called Smile TV; spiritual channel called Jagran; now toying with the idea of launching children and women's channels
- **United Television:** Launched a children's channel called Hungama TV
- **Walt Disney:** In talks with Star, Sony and ESPN-Star Sports to distribute three of its channels (Playhouse, Toons and TDC) in 2006

Balaji's drivers of growth

Over and above the industry's growth drivers, discussed in great detail in the report, there are important reasons why Balaji Telefilms is attractively placed to capitalise on the growth of India's entertainment industry.

1 Supply chain management

At Balaji, the efficiency of its supply chain management has helped marry discipline with creativity leading to outcome predictability.

Conceptualisation

Just as most product-based companies have a guarded sampling process initiated by their R&D teams, Balaji conducts an ideation process, whose feedback influences whether the ideas are extended or rejected.

Shoot management

Once the ideation is translated into a script, a production schedule identifies hiring, costumes, prop and equipment requirements – at pre-negotiated rates.

Logistics management

Balaji's logistics management comprises an inventorisation of sufficient episodes, concurrent management of serials on its production floors, involvement of around 25-30 artistes per episode supported by a director, scriptwriter, cameramen, sound recorder, costume designers, make-up artists, spot boys, art directors and light men.

As a decisive step in managing these variables, Balaji freezes the script well before the first shot can be clapped. Based on it, a logistics team sets to match artistes with the script leading to a shooting schedule.

Thereafter, the various teams take over: equipment is rotated strategically with the objective of maximised re-use and lead times to delivery are monitored closely from scripting to staging, ensuring that the Company takes a shorter time to shoot an episode than otherwise.

Artistes and technicians management

At Balaji, a culture of discipline extends to artistes and technicians, reflecting in timely availability and attendance.

Centralised purchase

A 24-hour single point procurement of all equipment, props and consumables represents the heart of the Company's costing efficiency. Since its inception as a strategic business unit, this department has computerised its functions and centralised all shooting requirements with the following benefits: a reduced dependency on external vendors, a timely material availability, cost savings and optimum product usage.

Continuous improvement

The Company continuously invests in cutting-edge equipment and progressive practices to enhance programming clarity. A meticulous approach has translated into the following advantages:

- A low episode inventory facilitates the timely incorporation of feedback into content creation
- Timely compliance with deadlines and schedules
- Minimal wastage
- Quick scalability

2 Product management

The Company faithfully studies audience responses as a guide to onward content creation. Over the years, this feedback management has been institutionalised: while a broad story direction is defined for a block of 100 episodes, the finer elements are frozen in line with evolving viewer expectations and facilitated by a low content inventory.

At Balaji, content is customised in response to the following sources:

- **TRP ratings:** This industry benchmark helps ascertain the quality of the Company's ongoing performance, prompting corrective action wherever necessary
- **Websites:** The Balaji 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:** An ongoing study of competing content and TRPs to assess audience preferences

3 Talent management

Over the years, the Company has consciously evolved the best people practices from global human resource models, similar to its functional organisational structure.

- **Transparency:** A transparent link between individual effort, team achievement and fair remuneration leading to enhanced motivation
- **Healthy competition:** Competition between various in-house production teams to produce the best in-house serial (measured unambiguously through TRPs)
- **Hands-on training:** Induction of new recruits onto the production floor under supervisory guidance; performance appraisal based on which job profiles and remuneration packages are enhanced
- **Attractive remuneration:** Attraction of the best talent through higher-than-industry pay scales
- **Pride:** Increased retention through a sense of pride among members

Over the years, the Company has progressively de-risked itself from people attrition through the following initiatives:

- Succession planning for every single function

- Increasing recruitment of non-celebrity artistes and professionals, saving fees and maximising availability.
- Maintenance of an extensive database of available talent leading to auditions in the shortest lead time.

4 Internal audit control

During the year under review, the Company strengthened its audit process, possibly the only one of its kind in the Asian entertainment industry. Covering more than 15 units, the audit function translated into the following:

- The creation of the first tier of cost control
- The 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 overrun 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
- The creation of a daily MIS report which is submitted to the senior management with a view to identify and prevent wasteful expenditure
- The creation of dockets to standardise all variable costs and analyse all variables
- A methodical hiring clearance system in which the production team documents a resource need which leads to an understanding of whether it is available in-house or needs to be outsourced
- The synchronisation of various production schedules to optimise the use of artistes, technicians and hired property
- The routing of material procurement, based on a quotation process from multiple vendors through the commercial department results in transparent conscious vendor development

These initiatives translated into attractive savings through a rationalisation of people resources, an increase in equipment utilisation, greater inter-departmental co-ordination and a restructuring of the accounting role in line with the ABC analysis of their function.

5 Genre mix

In the business of entertainment content, sustainable success is derived from an ability to extend one's mastery in one genre to others, an opportunity for growth and concurrent de-risking. As a future-focused content creator, the Company extended into talk shows, youth programmes and films, diversifying its genre mix even as mass entertainment continued to be the Company's principal revenue earner.

Did you know?

Balaji has a de-risked business model with a strategic dependence on commissioned programmes. This strategy represents an interesting balance between risk-neutrality and income-enhancement. A significant 86% of the Company's income is derived from commissioned programming. In future, the Company will increase programming hours in this segment by diversifying into new genres where the realisation per hour is higher than realisations derived from sponsored programming.

Operational review

Programmes

Balaji had 20 television serials on air aggregating to 85 episodes a week as on 31st March 2006 compared to 81 episodes a week as on 31st March 2005.

Programming hours

Total programming hours increased 23% from 1720 hours in 2004-05 to 2113 hours in 2005-06, primarily due to the launch of five new shows in 2005-06 across the Star TV, Sony TV, Zee TV, Star One and DD-Chandana channels.

Programming mix

Sponsored: In this format, the Company buys telecast slots and in exchange receives free commercial time, 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. As a result, the Company prudently assumes the risk of content creation and marketing.

Sponsored programming hours increased 32% from 789 in 2004-05 to 1045 in 2005-06; as a proportion of the Company's turnover, they declined from 16% in 2004-05 to 12% in 2005-06; average realisations from these programmes declined by 16% to Rs. 3.28 lacs per hour.

Sponsored programmes in 2005-06

Kalyanee	Gemini TV
Kanyadaana	Udaya TV
Kumkuma Bhagya	Udaya TV
Kadambarii	Udaya TV
Kanavarukaaha	Sun TV
Pavithra Bandham	Surya TV
Kavyanjali	Surya TV
Kankkana	DD-Chandana

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

Commissioned programming hours increased from 931 in 2004-05 to 1070 in 2005-06; as a proportion of the Company's turnover, they remained at 84% in 2005-06; average realisations from these programmes increased by 25% to Rs. 22 lacs per hour.

Commissioned programmes, 2005-06

Kyunki Saas Bhi Kabhi Bahu Thi	Star Plus
Kahaani Ghar Ghar Kii	Star Plus
Kasautii Zindagii Kay	Star Plus
K. Street Pali Hill	Star Plus
Kaahiin To Hoga	Star Plus
Kavyanjali	Star Plus
Kesar	Star Plus
Kkusum	Sony TV
Kaisa Ye Pyaar Hai	Sony TV
Kosmiic Chat	Zoom
Kandy Floss	Sony TV
Hum Paanch	Zee TV
Kasamh Se	Zee TV
Kyaa Hoga Nimmo Kaa	Star One

Programming distribution in 2005-06

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 (even as Hindi, India's predominant language, accounted for 13 of 21 serials).

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

Language	2005-06		2004-05	
	Revenues	Programming hours	Revenues	Programming hours
Hindi	23616.23	1085	16766.23	976
Telugu	1171.58	215.50	1580.02	277.50
Kannada	1174.54	424	830.44	298
Malayalam	587.47	258.50	298.83	112
Tamil	376.40	130	89.84	56
Total	**26926.22**	**2113**	**19565.36**	**1719.50**

Channel spread across languages

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 has done remarkably well in this regard over the years: 83% of its content was telecast on the evening prime time band — 7 p.m. 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. In 2006-07, the Company intends to enhance its exposure in unoccupied slots and weekend prime time programmes for leading satellite channels.

Channel-driving capabilities

In the entertainment content business, it is not enough to market content to channel customers; success endures when the Company's content becomes the driver of the success of its customer channels, making it integral to the sustainability of its audience.

This is precisely what the Company demonstrated yet again during 2005-06; its content accounted for a high audience retention, reflected in the relevant serials emerging as the top TRP grossers for their respective channels.

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:

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

Language	2005-06		2004-05	
	Revenues	Programming hours	Revenues	Programming hours
Major satellite channels	23499.24	1067.50	16481.97	931
Doordarshan	129.27	57.50	284.25	45
Gemini TV	1171.58	215.50	1580.02	277.50
Udaya TV	1162.27	384	830.43	298
Surya TV	587.47	258.50	298.83	112
Sun TV	376.40	130	89.84	56
Total	**26926.22**	**2113**	**19565.34**	**1719.50**

Did you know?

Balaji Telefilms retained its numero uno position in India's entertainment content industry. Nearly 86% of its programmes were aired during prime time in 2005-06. The Company accounted for 79% of the aggregate TRPs during weekday prime time shows (across the top 100 Hindi cable and satellite shows) and continued to occupy over 50 of the top 100 TRP slots.

Financial review

2005-06 vs 2004-05

- Turnover increased by 43% from Rs. 19674 lacs in 2004-05 to Rs. 28037 lacs in 2005-06
- EBDIT increased by 41% from Rs. 7230 lacs in 2004-05 to Rs. 10236 lacs in 2005-06.
- Profit before tax increased by 41% from Rs. 6237 lacs in 2004-05 to Rs. 8798 lacs in 2005-06.
- Profit before interest and tax increased by 41% from Rs. 6255 lacs in 2004-05 to Rs. 8803 lacs in 2005-06.
- Profit after tax increased by 44% from Rs. 4130 lacs in 2004-05 to Rs. 5942 lacs in 2005-06.

Margins

The PAT margin of the Company increased from 20.99% in 2004-05 to 21.19% in 2005-06 despite a 47% increase in the cost of production of Balaji's content. PBDIT as a percentage of total income remained at 36% in 2005-06, despite an increase of 44% in the total expenditure of the Company.

Margins

	2005-06	2004-05	2003-04
EBDITA margin(%)	36.51	36.75	52.11
Cash profit margin(%)	36.49	36.65	52.10
Pre tax profit margin(%)	31.38	31.70	47.76
PAT margin(%)	21.19	20.99	31.08

Capital employed

	2005-06	2004-05	2003-04	YoY growth
Average Capital Employed (Balance sheet total -misc exps)	23179.91	17875.54	12541.18	29.67%

Average Capital employed increased by 5304.37 lacs in absolute terms over the previous year in 2005-06 to Rs. 23179.91 lacs largely on account of the increased surplus. The return on capital employed increased from 40% in 2004-05 to 44% in 2005-06. The ROACE is a simple but effective tool that measures how much the company earned out of the resources invested in the business. We are pleased to report that the Company is at a point when every rupee re-invested in the business is expected to generate significantly higher returns than what stakeholders would have otherwise earned from investments made in risk-free financial securities.

The capital output ratio increased from 1.13 in 2004-05 to 1.25 in 2005-06, indicating a better use of financial resources. Working capital as a proportion of turnover declined from 35% in 2004-05 to 18% in 2005-06 indicating better terms of trade with the Company customer channels.

Years	2005-06	2004-05	2003-04
Return on average capital employed (%)	44.15	40.44	74.09

The Company's turnover increased 43% from Rs. 19675 lacs in 2004-05 to Rs. 28037 lacs in 2005-06

Revenues

The Company's turnover increased 43% from Rs.19675 lacs in 2004-05 to Rs. 28037 lacs in 2005-06, largely on account of an increase in the sale of content and a revision in the rates of the content produced by the Company. The Company generated Rs. 29.16 lacs in revenues from the export of content to UAE and USA.

Split: The revenue-wise distribution between commissioned and sponsored programming in 2005-06 was as follows:

Rs. / lacs

Programming	2005-06	2004-05
Commissioned	23499.23	16481.98
Sponsored	3456.15	3192.81

Balaji continued to depend on content created through the commissioned category, preserving the segment's contribution at 84% of turnover in 2005-06.

The sponsored category (mainly regional content) generated revenue of Rs. 3456.15 lacs in 2005-06 compared to Rs. 3192.81 lacs in 2004-05, an increase that resulted mainly due to Balaji's foray into newer regional channels such as DD-Chandana.

New programmes started during the year

Commissioned

- *Kasamh Se* and *Hum Paanch* on Zee TV
- *Kyaa Hoga Nimmo Kaa* on Star One
- *Kandy Floss* on Sony TV

Sponsored

- *Kankkana* on DD-Chandana
- *Kalyanee* on GeminiTV
- *Pavitra Bandham* on Surya TV

Programmes that went off air during the year

Commissioned

- *Kkusum* on Sony TV
- *Kaarthika Dipam* on Hungama TV
- *Kyaa Kahein* and *Kosmiic Chat* on Zoom
- *Kitni Mast Hai Zindagi* on MTV
- *Hum Paanch* on Zee TV

Sponsored

- *Kkalavaari Kkodulu* and *Kaarthika Dipam* on Gemini TV
- *Kayamat* on Doordarshan

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 across the creative and commercial filters covering the selection of artiste, location and other costs without comprising production values.

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 to ensure timely delivery.

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.

As a result of this discipline, total expense as a proportion of income remained at 72% in 2005-06, similar to 2004-05. In quantum terms, the Company's total expenditure increased 44% to Rs. 20108 lacs in 2005-06 compared to Rs. 13932 lacs in the previous year. This was in line with growth in the Company's business leading to a corresponding rise in equipment, employee and administrative costs.

Improved employee benefits and incentivisation enhanced productivity. The employee cost as a proportion of total income declined from 2.68% to 2.48%, despite an increase in absolute terms from Rs. 539 lacs in 2004-05 to Rs. 717 lacs in 2005-06.

The Company paid an interest of Rs. 4.64 lacs in 2005-06 compared to Rs. 18.58 lacs in 2004-05. As a proportion of net sales, interest declined from 0.09% in 2004-05 to 0.01% in 2005-06.

The Company invested over Rs. 1311 lacs in production and post-production equipment and new state-of-the art studios.

Dividend

The Board of Directors considered a dividend of Rs. 3 per share (of a face value of Rs. 2 per share) as the final dividend for 2005-06. This worked out to a dividend translating into a payout of Rs. 1956.31 lacs and a payout of 33% on the post-tax profit of the Company. In view of the Company's need to redeploy cash and also reward shareholders, this payout is considered fair and prudent.

Gross block

As a progressive organisation, the Company continued to invest in its gross block, marked by state-of-the-art equipment and infrastructure. The Company did so with an objective of enhancing the captive availability of infrastructure.

Gross block increased from Rs. 5593 lacs in 2004-05 to Rs. 6695 lacs in 2005-06 as the Company invested over Rs. 1311 lacs in additional production /post-production equipment and new state-of-the art studios.

Over the years, the Company invested in the following:

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 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. 11375 lacs as on 31st March 2005 to Rs. 16239 lacs on 31st March 2006. The Company invested its surplus funds in liquid debt funds with the objective to preserve capital, liquidate at will and generate a fair return on investments. The Company, as a matter of policy, did not invest in risk-based financial instruments. The market value of the investments was Rs. 16636 lacs as on 31st March 2006.

Debtors

The Company's terms of trade strengthened during the year under review. Receivables declined from 99 days in 2004-05 to 95 days in 2005-06 (equivalent to days of income). 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.

Inventories

The Company's inventory of programmes declined from 44 days in 2004-05 to 15 days in 2005-06 as the two feature films carried in the inventory in the previous year were released during 2005-06.

Loans and advances

Loans and advances declined from Rs. 1745 lacs in 2004-05 to Rs. 1705 lacs in 2005-06, comprising lease deposits for offices and studios. These loans and advances were considered safe and related to the Company's business.

How Balaji enhanced value for its shareholders during the year under review

At Balaji Telefilms, our objective is to enhance value for all those who own shares in our Company. At the Company, we measure the success of our objective through some of the popular measures used by analysts and the financial community and are pleased to report that we more than met expectations through each.

Shareholder value	2005-06	2004-05	2003-04
EPS (Face value Rs.10)	9.15	7.61	10.76
CEPS (Face value Rs.10)	11.31	7.83	12.26

Return on average net worth

The sustainability of a Company's operations is gauged by its return on average net worth (calculated by dividing the profit after tax by the average net worth for the year), which factors in the reinvestment of shareholders' funds into the business. ROANW strengthened 253 basis points to 25.63% during the year under review.

Years	2005-06	2004-05	2003-04
Return on average net worth(%)	25.63	23.10	44.18

Total shareholders' return (TSR)

TSR improved from 52% in 2004-05 to 111% in 2005-06, indicating that the Company had enhanced value for its shareowners.

TSR reflected the gain delivered to the shareholders by the Company – directly and indirectly (directly in the form of the dividend received by them; indirectly in the form of the capital appreciation registered by the stock during the financial year under review).

TSR was derived from the subtraction of the year-start market capitalisation from the year-end market capitalisation, its subsequent addition to the dividend payout during the year and the division of the subsequent figure by the opening market capitalisation.

The Company reported a stronger market capitalisation and dividend, enhancing the value of the holdings of shareholders in a direct and indirect way.

Years	2005-06	2004-05	2003-04
Total shareholders' return (Rs. mn)	6446	2277	1669

Ratios

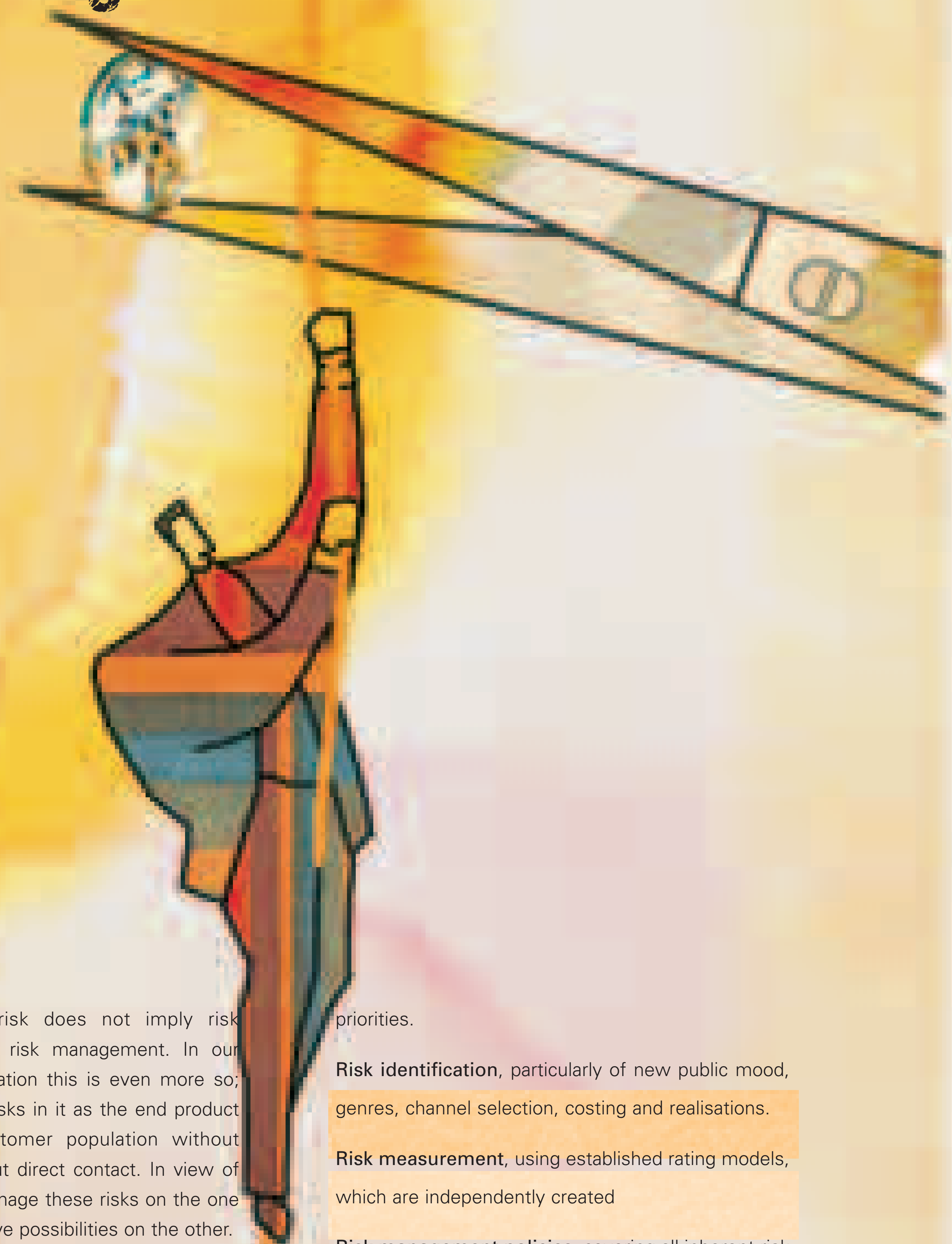
Financial performance ratios	2005-06	2004-05	2003-04	2002-03	2001-02
Other income/total income	3.01	2.45	3.34	0.80	2.55
Cost of production/net sales	55.79	54.07	41.82	42.65	51.17
Overheads/total income	10.48	11.41	9.20	6.65	7.14
Interest/total income	0.01	0.09	0.01	0.03	0.04
PBDIT/total income	35.41	35.84	50.37	50.58	40.37
PBDT/total income	35.39	35.75	50.36	50.55	40.33
Tax/PBT	33.81	33.45	31.97	35.38	35.35
PAT/total income	20.56	20.48	30.04	30.63	25.65
Cash profit/total income	25.51	25.31	34.24	32.89	26.59
RONW (PAT/net worth)	23.72	19.37	38.38	53.94	44.51
ROCE (PBDIT/average capital employed)	44.15	40.44	74.09	110.49	86.86
Capital output ratio (total income/average capital employed)	1.25	1.13	1.47	2.18	2.15
Total income to gross block	4.32	3.61	4.21	5.35	5.94
Total income to working capital	5.63	2.91	4.44	5.94	4.59
Balance sheet ratios					
Debtors' turnover (days)	95	99	82	69	70
Inventory turnover (days)	15	44	15	9	12
Current ratio	1.90	3.43	3.12	2.63	2.89
Quick ratio	1.69	2.59	2.75	2.39	2.62
Cash and equivalents/Total assets (%)	66.12	53.33	51.39	45.60	41.75
Asset turnover (Total income/Total assets)	1.13	0.92	1.23	1.71	1.70
Growth ratios					
Growth in total income	43.32	9.35	-1.6	65.72	127.68
Growth in net sales	42.50	10.35	-4.12	68.59	125.61
Growth in PBDIT	41.56	-22.19	-2.01	107.67	576.44
Growth in PAT	43.87	-25.47	-3.48	97.87	566.99
Per share ratios (Rs.)					
Earnings	9.15	7.61	10.76	11.15	5.63
Cash earnings	11.31	7.83	12.26	11.97	5.84
Dividend	3	16	3	3	1
Book value	38.42	32.68	28.03	20.67	12.66
Shareholder-related statistics					
Dividend per share (%)	150	800	150	150	50
Dividend payout ratio (%)	16.39	105.11	13.94	13.46	8.88
Price-earnings (times)	20.19	11.69	7.85	4.94	14.52
Price/cash earnings (times)	16.34	11.37	6.89	4.60	14.01
Price/Book value (year end) (times)	6.28	3.55	3.10	2.74	6.66
Growth in market capitalisation (%)	107.70	33.40	53.41	-32.71	182.69
Net value-added (Rs./cr)					
Gross income	280.37	196.75	178.30	185.96	110.30
Add: Other income	8.69	4.94	6.15	1.49	2.81
Corporate output	289.06	201.69	184.45	187.45	113.11
Less: Cost of production	156.41	106.38	74.57	79.31	56.44
Selling and administration expenses	30.30	23.01	16.97	13.32	11.01
Gross value-added	102.35	72.30	92.91	94.82	45.66
Less: depreciation	14.33	9.74	7.74	4.24	1.07
Net value-added	88.02	62.56	85.17	90.58	44.59
Growth%	40.70	-26.55	-5.97	103.12	595.69
To taxes (inclusive dividend tax)	32.49	31.63	29.20	33.02	16.01
To creditors (interest)	0.04	0.19	0.02	0.06	0.04
To investors (dividend)	19.56	82.43	15.45	15.45	5.15
To the Company (retained earnings)	35.97	-51.50	40.52	42.11	23.43

Did you know?

Balaji's programming hours jumped from 1720 hours in 2004-05 to 2113 in 2005-06.

Balaji possesses more studios than any Indian company working in the field of entertainment software. Its complement of 26 modern studios engaged in the areas of production serves as an effective backward integration.

Risk management



The management of risk does not imply risk elimination but prudent risk management. In our business of content creation this is even more so; there are a number of risks in it as the end product must appeal to a customer population without homogeneity and without direct contact. In view of this, our priority is to manage these risks on the one hand and leverage positive possibilities on the other.

At Balaji, we categorise risks across two basic types - risks that should be taken and risks that should be avoided. We manage and minimize risk through our individual and institutional capability to understand their nature, which leads to relevant, appropriate and commensurate responses.

Risk control at Balaji comprises the following priorities.

Risk identification, particularly of new public mood, genres, channel selection, costing and realisations.

Risk measurement, using established rating models, which are independently created

Risk management policies, covering all inherent risk categories both at the operational or corporate level, consistent with the business requirements and international best practices

Risk reporting to the management

Risk control, reflected in unambiguous initiatives

1

Nature of risk
Quality risk

Risk explanation

Balaji's content may encounter a lower TRP, impacting its ability to negotiate attractive fees.

Risk mitigation

Balaji's multi-genre content is woven around family-based storylines with an enduring appeal across ages, genders, geographies and income profiles. The Company's proprietary insight into content pace and treatment is made to inevitably evoke the desired response of 'What next?' This treatment has been reinforced with superior production values (attractive sets, catchy music, attractive locations and fashionable outfits), enhancing audience retention.

Mitigation measurement

22 of the top 25 programmes across leading satellite channels and 63 of the top 100 shows across the Hindi cable and satellite channels were Balaji productions; average hourly realisations for commissioned programme strengthened from Rs. 17.70 lacs in 2004-05 to Rs. 22.22 lacs in 2005-06.

2

Nature of risk
Growth risk

Risk explanation

There may be no slots or channels left for Balaji to grow in.

Risk mitigation

The Company intends to increase its presence across more satellite channels, time bands (weekend programming and the Sunday morning slot), languages (Bengali, Tamil, Malayalam), formats (small budget films), prime time extension (from 8 pm – 11.30 pm to 7 pm – 12 am), global IPR opportunities and regulatory changes.

Mitigation measurement

The Company increased its programming hours by 23% in 2005-06.

3

Nature of risk
Customer concentration risk

Risk explanation

An excessive dependence on Star TV, the Company's number one customer, may work against the Company in the event that the channel does not perform well.

Risk mitigation

The Company is extending its presence across more television channels e.g. Zee and Star One even as its presence on Star TV continues to be stable and encouraging.

Mitigation measurement

The Company's programmes were beamed across 11 channels during the year.

The Company entered the reality show genre with Kosmiic Chat and Kandy Floss during 2005-06 and expects to reinforce this with non-fiction content programmes like Karmiic Connection and Karbon Copy during 2006-07.

4

Nature of risk

Language risk

Risk explanation

Almost 85% of the Company's programming revenues were derived from one language (Hindi), a risk in the event that Hindi lost a part of its influence or other entertainment software providers capitalise on vernacular opportunities.

Risk mitigation

The Hindi risk is not as pronounced for a number of reasons: Hindi is the fourth most widely spoken language in the world, mother tongue for more than 180 million Indians and second language for another 300 million. Research indicates that Hindi programmes are the most widely watched, accounting for almost 47% viewership and 57% of revenues.

Mitigation measurement

The Company increased non-Hindi programming from 743 hours in 2004-05 to 1027 hours in 2005-06 across the Telugu, Tamil, Malayalam and Kannada languages.

5

Nature of risk

Genre risk

Risk explanation

New genres (reality shows) are finding acceptance, raising the risk that the older ones may fall out of favour.

Risk mitigation

The Company entered the reality show genre with *Kosmiic Chat* and *Kandy Floss* during 2005-06 and expects to reinforce this with non-fiction content programmes like *Karmiic Connection* and *Karbon Copy* during 2006-07.

Mitigation measurement

The Company created approximately 22 hours of programming of new genre shows during 2005-06. With new shows planned for 2006-07, revenues from this segment will increase further.

6

Nature of risk

Over-dependence risk

Risk explanation

The Company could be overtly dependent on Ekta Kapoor, its Creative Head. Her inability in being associated with all programmes could stagger corporate growth.

Risk mitigation

Ekta Kapoor involves herself at the conceptualisation stage and the first few episodes of a serial, following which the respective creative heads take over. The Company has also reinforced this delegation with an aggressive recruitment exercise across the conceptualizing and scripting disciplines.

Mitigation measurement

The Company's ability to increase the number of programming hours by 23% to 2113 hours without losing TRPs indicates its success in growing its second creative line.

Balaji's superiority is clearly reflected in the fact that Balaji serials accounted for over 50% of the aggregate TRP of top 150 Hindi C&S shows.

7

Nature of risk

Competition risk

Risk explanation

Given the Company's market leading position, any new entrant represents competition.

Risk mitigation

The Company has been a leading content producer for the last six years, an index of its ability to withstand competition despite an increasing number of industry players.

Mitigation measurement

Balaji's superiority is clearly reflected in the fact that Balaji serials accounted for over 50% of the aggregate TRP of top 150 Hindi C&S shows.

8

Nature of risk

Technology risk

Risk explanation

In 2005-06, Balaji invested Rs.13.11 cr in production assets and equipment. Technology obsolescence could entail replacement and create a cash squeeze.

Risk mitigation

The Company invested in digital and modular equipment (production and post-production), a relatively safe insurance against obsolescence.

Mitigation measurement

A high captive use of equipment and investment in digital equipments and state of the art studios represents adequate initiative against obsolescence.

9

Nature of risk

People attrition risk

Risk explanation

Due to high attrition of key artistes and professionals, the quality of programmes could suffer suddenly and without adequate notice.

Risk mitigation

The Company emphasizes script-centric – as opposed to artiste-centric – themes, as a result of which, most of the Company's serials possess adequate strength to absorb attrition without their TRPs being affected.

Mitigation measurement

The Company has professionalised the working enviroment with challenging job content, performance oriented appraisal system, fast growth possibilities, hands on trainning and multi level succession planning. As a result, attrition has been way below the average industry standards.

Corporate information

Directors
Jeetendra Kapoor
Shobha Kapoor
Ekta Kapoor
Tusshar Kapoor
Akshay Chudasama
Dhruv Kaji
Pradeep Kumar Sarda
John Yu Leung Lau
Michelle Lee Guthrie

Company secretary
Alpa Shah

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 2673 2275
Fax: +91 22 2673 2308
Website: www.balajitelefilms.com

Regional offices

Chennai
Plot no. 38, K K Salai
Kavery Rangam Nagar,
Saligramam, Chennai – 600 093

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

Trivandrum
Ishara, T.C. 36/589
Perumthanni, Vallakkadavu, P.O.
Trivandrum – 695 008

Board of directors

Jeetendra Kapoor

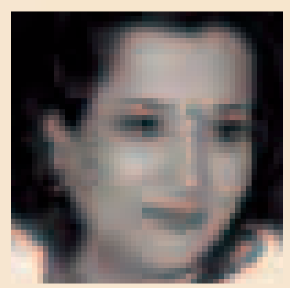
Balaji Telefilms' Chairman since 1st February 2000.

Commenced his film career as a junior artiste with the legendary filmmaker V. Shantaram.

Has acted in more than 200 films and received several prestigious 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.

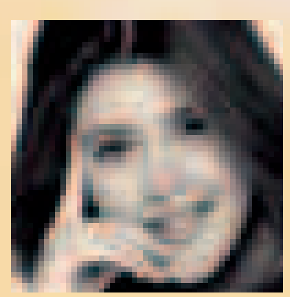
Re-appointed as the Managing Director and CEO on 10th November 2004.

Responsible for the Company's administration and production.

Among the few Indian television producers with a successful track record in a young industry.

Core expertise: Production and organisational management. *(P, E)*

Member of the Board's Shareholders' Committee Term ends on: 9th November 2009. Eligible for re-appointment



Ekta Kapoor

Balaji Telefilms' Director since 10th November 1994.

Re-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.

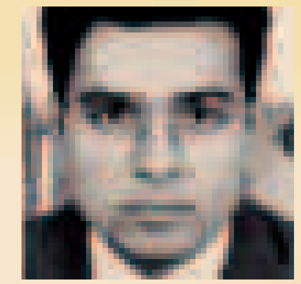
Her contribution comprises entertainment landmarks in India.

Selected one of Asia's most powerful communicators by the Asia Week magazine.

Designated as the 'Young Global Leader' in 2006 by the Forum of Young Global Leaders, an affiliate of the World Economic Forum.

Core expertise: Concept building, script design and creative conversion *(P, E)*

Member of the Board's Shareholders' Committee Term ends on: 9th November 2009. Eligible for re-appointment



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.

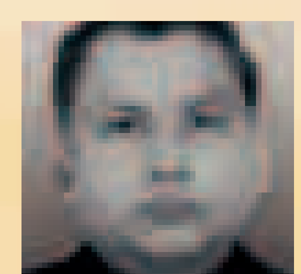
A chartered accountant with an experience of more than 25 years.

Financial advisor and management consultant.

Was associated with Raymond Ltd. as Finance Director and Pinesworth Holding Ltd. (Singapore) as the Executive Director.

Core expertise: Major expertise in strategic planning. 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

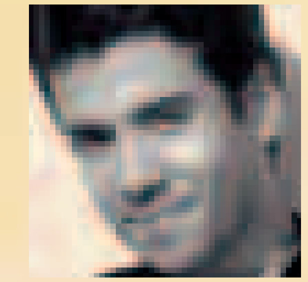
Balaji Telefilms' Director since 17th May 2004.

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 Committee



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)*

Term ends on: 31st July 2007. Eligible for re-appointment

Michelle Guthrie

Balaji Telefilms' Director since 24th January 2005.

Chief Executive Officer of Star since November 2003.

Joined News Corporation in 1994.

Previously, a lawyer at Allen, Allen and Hemsley in Sydney and Singapore

Besides the Indian companies, she is also on the Board of 25 companies incorporated outside India, like Phoenix Satellite Television and China Network Systems.

Core expertise: Media and technology sector and vast experience in the pay television industry. *(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.

He also heads the business development division.

He is a 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. *(N, NI+)*

P= Promoter; E= Executive; N= Non-Executive; I= Independent, NI – Non-Independent
+ Directorships of foreign companies

Directors' report

Your Directors take pleasure in presenting the twelfth Annual Report and Audited Statement of Accounts of the Company for the year ended 31st March 2006

Financial results

Rs. (in lacs)

Particulars	2005-06	2004-05
Total income	28,906.57	20,168.95
Profit before interest, depreciation and tax	10,235.74	7,229.51
Less: interest and financial charges	4.64	18.58
Depreciation	1,432.88	974.03
Profit before tax	8,798.22	6,236.90
Provision for tax	2,975.20	2,086.20
Provision for deferred income tax	119.19	(21.08)
Profit after tax	5,942.21	4,129.62
Add: excess provision for tax in earlier years	22.07	21.06
Add: balance brought forward from previous year	3,250.28	8,832.40
Appropriations		
Disposable profits	9,214.56	12,983.08
Proposed dividend	1,956.31	–
Interim dividend	–	8,242.60
Dividend tax	274.37	1,077.20
Transfer to general reserve	594.23	413.00
Balance carried to balance sheet	6,389.65	3,250.28

Results of operations

The business performance during the year has been commendable. Total revenue increased to Rs. 28,907 lacs from Rs. 20,169 lacs in the previous year – a growth of 43.3%. Operating profit increased by 39% from Rs. 6735.35 lacs to Rs. 9366.32 lacs Profit after tax increased to Rs. 5942.21 lacs from Rs. 4129.62 lacs representing a growth of 43.89%.

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

Dividend

Your Directors are pleased to recommend a final dividend of Rs. 3 per share (150% on par value of Rs. 2 per share) for the year ended 31st March 2006, amounting to Rs. 1956.31 lacs, as against the special dividend of Rs. 8242.60 lacs for the previous year.

Dividend, if approved at the Annual General Meeting will be paid to all members whose names appear on the Register of Members as on 18th August 2006. The register of members and share transfer books will remain closed from 11th August 2006 to 18th August 2006, both days inclusive.

In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National

Securities Depository Limited and Central Depository Services (India) Limited for this purpose. Dividend income is exempt from tax for shareholders and the domestic companies are liable to pay a dividend distribution tax at the rate of 12.50%, plus a surcharge at the time of distribution. Accordingly, the Company has provided for an amount of Rs. 274.37 lacs towards dividend distribution tax on the final dividend of Rs. 19.56 cr recommended by the Board on 9th May 2006.

Directors

Ms. Liza Newnham and Ms. May Oh had been appointed as alternate Director to Ms. Michelle Guthrie and Mr. John Lau, nominee Directors from Asian Broadcasting FZ LCC, and during the year they ceased to be alternate Director on return of the original Director to the state of Maharashtra.

Mr. Akshay Chudasama and Mr. Pradeep Sarda retire from the Board by rotation and being eligible, offer themselves for re-appointment.

Auditors

M/s. Deloitte, Haskins and Sells, Chartered Accountants, Mumbai and M/s. Snehal & Associates, Chartered Accountants, Mumbai, the Joint Auditors of the Company retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment and have also confirmed their eligibility and willingness for appointment, if made, as Joint Auditors of the Company and certifying that if they are appointed as Auditors for the year 2006-07, 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 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 & CEO*	239.10	N.A.	12	10th November 1994	57	N.A.
Ekta Kapoor *Creative Director*	239.10	B. Com	12	10th November 1994	31	N.A.

Note:
1. Gross Remuneration comprises salary, commission, allowances, performance remuneration, 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 twelve 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 conservation of energy and technology absorption are not applicable. However, in studios and post production facilities etc. adequate measures are being taken to conserve energy as far as possible.

Foreign exchange earnings and outgo

The particulars regarding foreign exchange earnings is Rs. 79.16 lacs and the outgo is Rs.139.66 lacs as given in point 13 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 the Stock Exchanges, a separate section titled Corporate Governance has been included in this report. The Auditors' certificate on compliance of Clause 49 of the Listing Agreement by the Company is annexed to this report.

Directors' responsibility statement

The Directors confirm:

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

Acknowledgements

Your Directors wish to place on record their appreciation of 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,

Jeetendra Kapoor
Chairman

Place : Mumbai
Date : 9th May 2006

Corporate governance

Balaji Telefilms Limited is committed to strong corporate governance and believes in its indispensability in investor protection. 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 hereinbelow:

Company's philosophy on Corporate Governance

The Company's philosophy on Corporate Governance is as under:

- Ensure that quantity, quality and frequency of financial and managerial information, which management shares with the Board, fully places the Board members 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 maximizing long-term value to the shareholders and the Company

Composition of the Board

The Board currently has nine members, of whom three are Executive Directors. The Board has a non-Executive Chairman. One third of the strength of the Board of Directors comprises Independent Directors. The Board functions either as a full Board or through Committees. Policy formulation, setting up of goals and evaluation of performance and control functions vest with the Board, while the Committees oversee operational issues.

Four meetings of the Board of Directors were held during the year – on 20th May, 4th August and 27th October in 2005 and on 31st January in 2006. 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 ten committees nor committee chairmanships of more than five committees across all companies in which the person was a Director.

The names of members of Board of Directors, their attendance at Balaji Telefilms Board meetings and the number of their 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)	4	Present	3	2	1
Ms. Shobha Kapoor (P, E)	4	Present	3	1	0
Ms. Ekta Kapoor (P, E)	3	Not Present	1	1	0
Mr. Akshay Chudasama (N, I)	3	Not Present	4	1	0
Mr. Dhruv Kaji (N, I)	3	Present	2 + 1	1	1
Mr. Tusshar Kapoor (P,E)	4	Present	2	0	0
Mr. Pradeep Sarda (N,I)	1	Present	19	1	0
Ms. Michelle Guthrie (N,NI)	2	Not Present	2 + 32	0	0
Mr. John Lau (N,NI)	2	Present	0 + 142	0	0
Ms. Liza Newnham (N, A)	2	N.A.	1	0	0
Ms. May Oh (N, A)	1	N.A.	1 + 2	0	0

P = Promoter; E = Executive; N = Non-executive; I – Independent; NI – Non-Independent; A- Alternate
+ Directorships of foreign companies

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 audit and management audit. The responsibilities of the Audit Committee include 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 adequacy of internal control systems and adequacy, structure and staffing of the internal audit function, reviewing findings of internal investigations, 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
Secretary	:	Ms. Alpa Shah
Invitees	:	Representatives of statutory auditors and internal auditors Mr. V. Devarajan, Chief Financial Officer

Meetings and attendance

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

Dates of meetings: **20th May and 27th October in 2005 and 31st January in 2006**.

Attendance

Name of the Director	No. of meetings attended
Mr. Dhruv Kaji	3
Mr. Akshay Chudasama	3
Mr. Jeetendra Kapoor	3
Mr. Pradeep Sarda	1

The statutory auditors 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, 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 of 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 Shareholder 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
Secretary	:	Ms. Alpa Shah

Meetings and Attendance

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

Dates of Meetings – **4th April, 17th June and 4th October in 2005 and 6th January in 2006**

Attendance

Name of the Director	No. of Meetings attended
Mr. Jeetendra Kapoor	4
Ms. Shobha Kapoor	4
Ms. Ekta Kapoor	4

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 the shareholding in dematerialised mode as on **31st March 2006** being 99.91%.

Remuneration Committee

Terms of reference

The Committee is entrusted with the role and responsibilities of approving compensation packages of Managing Director/ Whole Time Director, reviewing and approving the performance based incentives to be paid to the Managing Director/ Whole Time 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
Secretary	:	Ms. Alpa Shah

Meetings and Attendance

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

Dates of Meeting: 20th May 2005

Attendance

Name of the Director	No. of meetings attended
Mr. Akshay Chudasama	1
Mr. Dhruv Kaji	1
Mr. Jeetendra Kapoor	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 have been paid or is payable to the Managing Director and the Creative Director for the period under review, other than the commission @ of 2% each, of the net profits of the Company.

No remuneration was paid to Non-Executive Directors apart from Directors' sitting fees and commission at fixed rate of 0.90% to Chairman and 0.10% to all other Non-Executive Directors with a ceiling of Rs. 2 lacs each, as approved by the shareholders at the Annual General Meeting held on 28th August 2003. The Non-executive Directors are paid remuneration having regard to the prevalent practice in the Industry and commensurate with their experience. Besides the above remuneration, there is no pecuniary relationship or transactions by the Company with Non-Executive Directors.

Details of the remuneration to the Directors for the year ended 31st March 2006

Name	Designation	Remuneration for the year 2005-06 (in Rs.)					No. of shares
		Salary	Commission	Sitting fees	Employer contribution to Provident Fund / Gratuity	Total	held by Non-executive Directors
Ms. Shobha Kapoor	Managing Director & CEO	5,220,000	18,330,000	–	360,000	23,910,000	N.A.
Ms. Ekta Kapoor	Creative Director	5,220,000	18,330,000	–	360,000	23,910,000	N.A.
Mr. Tusshar Kapoor	Director	1,104,000	–	–	72,000	1,176,000	N.A.
Mr. Jeetendra Kapoor	Non-executive Chairman	–	8,248,000	50,000	–	8,298,000	5,567,500
Mr. Akshay Chudasama	Independent Director	–	183,200	35,000	–	218,200	–
Mr. Dhruv Kaji	Independent Director	–	183,200	35,000	–	218,200	–
Mr. Pradeep Sarda	Independent Director	–	183,200	15,000	–	198,200	–
Ms. Michelle Guthrie	Director	–	183,200	20,000	–	203,200	–
Mr. John Lau	Director	–	183,200	20,000	–	203,200	–
Ms. Liza Newnham	Alternate Director	–	–	30,000	–	30,000	–
Ms. May Oh	Alternate Director	–	–	15,000	–	15,000	–

The agreements with Managing Director and the Creative Director is for a period of five years. The nature of employment of Ms. Shobha Kapoor and Ms. Ekta Kapoor is contractual and terminable by twelve month's notice in writing. If the tenure of the office of Managing Director or Creative Director is terminated before expiration of the agreements, the severance fees would be amount 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
9th Meeting	Thursday, **21st August 2003**	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053.
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.

No special resolutions were put through postal ballot till last year.

Disclosures

1. Related parties' transactions

None of the transactions with any for the related parties were in conflict with interest of the Company. Transactions with the related parties are disclosed in Note No. B - 7 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 have been imposed on the Company by the stock exchanges, SEBI, or other statutory authorities relating to the above.

3. Though there is no formal Whistleblower policy, the Company takes cognizance 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 Board of Directors of the Company.

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

Re-appointment of Directors

The individual details of 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* (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 perused from the web site *www.sebiedifar.nic.in*.

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

General shareholder information

1. Date of book closure	**11th August 2006** to **18th August 2006** (both days inclusive).
2. Date, time and venue of the Annual General Meeting	**18th August 2006** at 3:30 p.m. at 'The Club', 197, DN Nagar, Andheri (West), Mumbai 400 053.
3. Dividend payment	The Board of Directors has recommended final dividend of 150% for the year ended **31st March 2006**. The dividend will be paid within the stipulated number of days once it is approved at the AGM.
4. Listing on Stock Exchanges	(i) 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) (ii) 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. Listing fees	Paid for both the above Stock Exchanges as per listing agreements
6. Listing on Stock Exchanges outside India	Not applicable
7. Registered office of Company	C-13, Balaji House, Dalia Industrial Estate, Opp. Laxmi Industries, New Link Road, Andheri (West), Mumbai – 400 053. Tel: +91-22-26732275, Fax: +91-22-26732312 Email: balaji@balajitelefilms.com Web site: www.balajitelefilms.com
8. 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

'Karvy House' 46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad – 500 034.
Tel: +91-40-23420818
Fax: +91-40-23420814
Email: mailmanager@karvy.com

9. Share transfer system

Shares sent for 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. The total number of shares transferred in physical form during the year 2005-2006 were 250. There was no share transfer pending as on **31st March 2006**.

10. Stock market data relating to shares listed in India

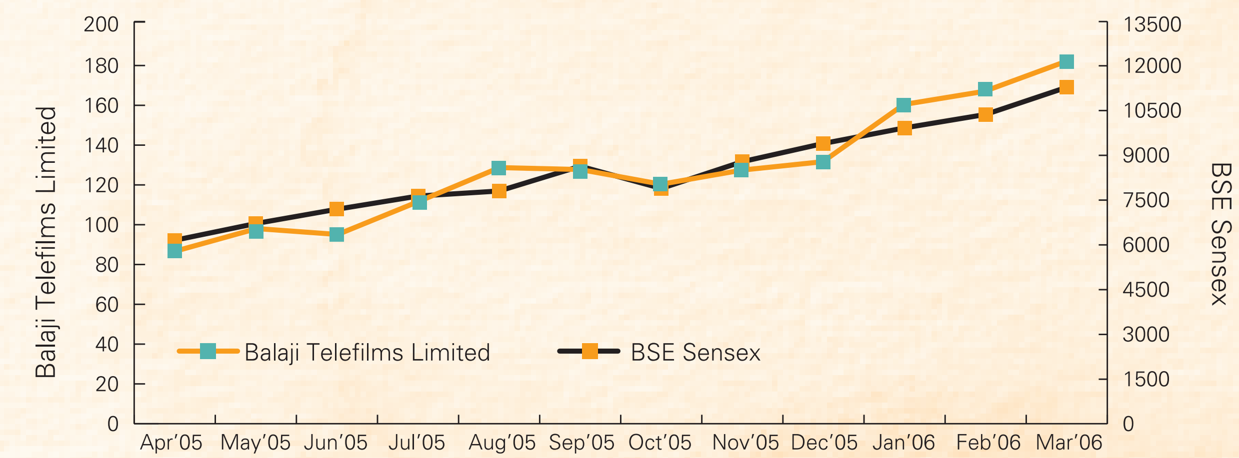
The Company's shares are listed on the Stock Exchange, Mumbai and National Stock Exchange of India Limited, since **22nd November 2000**. The Company's market capitalisation as on **31st March 2006** was Rs. 1204.76 crores. The monthly high and low quotations as well as the volume of shares traded during the year are as below:

Month	BSE, Mumbai			National Stock Exchange		
	High	Low	No. of Shares Traded	High	Low	No. of Shares Traded
April	105.00	90.00	595,072	104.7	89.65	1,798,164
May	116.50	98.65	881,759	115.85	98.2	2,774,935
June	110.00	99.85	400,591	110.7	99.1	1,320,954
July	133.40	106.10	1,127,698	134	106.7	2,907,005
August	151.00	119.00	958,318	153.9	119	2,401,870
September	148.00	120.25	454,554	148	122	1,039,639
October	140.00	115.05	518,747	139.95	116.3	1,515,384
November	141.00	126.75	166,645	141	126	531,384
December	147.30	128.00	231,695	147.5	125	554,001
January	184.50	142.25	374,525	195	138.25	756,774
February	180.00	158.65	132,093	181	154.85	488,464
March	196.95	150.00	463,083	198	165	890,742

Fact sheet

Items	2005-06	2004-05
Earnings per share	9.15	7.61
EPS – fully diluted	9.15	7.61
Dividend per share	Rs. 3	Rs. 16
Number of shares	65,210,443	65,210,443
Share price data (Rs.)		
High	198	130.85
Low	89.65	54.1
Closing	184.75	89

The performance of Balaji Telefilms equity share relative to the BSE Sensitive Index (Sensex) is given in the chart below.



11. Investor service – complaints / correspondence received during the year

Year ended 31st March 2006

Nature of complaints / requests	Received	Disposed
Change/correction of address	15	15
Receipt of dividend warrants for revalidation	13	13
Receipt of Indemnity Board for issue of duplicate dividend warrant	16	16
Non receipt of dividend warrants	69	69
Letter of intimation of bank mandate	4	4
Registration of power of attorney	1	1
Non receipt of annual report	3	3
Request for ECS facility	5	5
Change/correction of bank mandate	1	1
Change/correction of bank mandate on instruments	2	2
Change/correction of name on securities	1	1
Request for consolidation/split of securities	2	2

The Company has disposed of all of the investor grievances / correspondence. There is no share transfers pending as on **31st March 2006**.

12. Shareholding pattern of Balaji Telefilms as on 31st March 2006

Category	No. of shares held	Percentage of shareholding
Promoters	27,268,720	41.82
Bank	1,500	0.00
Indian financial institutions	93,071	0.14
Mutual Funds and UTI	1,606,111	2.46
FIIs	16,980,452	26.04
Private corporate bodies	462,896	0.71
Resident individuals	1,633,998	2.51
HUFs	35,815	0.06
NRIs	145,898	0.22
FCB	16,948,194	25.99
Trusts	51	0.00
Clearing members	33,737	0.05
Grand Total	**65,210,443**	**100**

13. Distribution of shareholding as on 31st March 2006

Number of shares	Number of shareholders	Percent of shareholders	Amount	Percent holding
1 to 5000	7,838	98.23	2,784,002	2.13
5001 to 10000	66	0.83	505,018	0.39
10001 to 20000	28	0.35	402,662	0.31
20001 to 30000	8	0.10	561,870	0.16
30001 to 40000	5	0.06	175,888	0.13
50001 to 100000	7	0.09	451,540	0.35
100001 & above	27	0.34	125,896,926	96.53
Total	**7,979**	**100.00**	**130,420,886**	**100.00**

14. Shares under lock-in

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

15. 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 agreement with both these depositories. Shareholders can open account with any of the depository participants registered with any of these depositories. As on **31st March 2006** about 99.91% comprising 65,151,842 equity shares were in the dematerialised form.

16. Financial calendar (tentative and subject to change)

Particulars	Date
Annual General Meeting	**18th August 2006**
Financial reporting for 1st quarter ending **30th June 2006**	Last week of July, 2006
Financial reporting for 2nd quarter ending **30th September 2006**	Last week of October, 2006
Financial reporting for 3rd quarter ending **31st December 2006**	Last week of January, 2007
Financial reporting for the year ended **31st March 2007** (audited)	June, 2007
Annual General Meeting for year ended **31st March 2007**	August, 2007

17. Plant locations

The details of regional offices of the Company are available on page 54 of the report.

18. Investors' correspondence

Investors' correspondence may be addressed to:

Alpa Shah, *Company Secretary*
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opp. Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053
Tel: +91-22-26732275, Fax: +91-22-26732312
Email: alpa@balajitelefilms.com

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

Mr. Sandeep Jain, *Chief Financial Officer*
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opp. Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053
Tel: +91-22-26732275, Fax: +91-22-26732312
Email: sandeep.jain@balajitelefilms.com

19. Insider trading

In terms of the SEBI (Prohibition of Insider Trading) Regulations, 1992, the Company has framed the 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 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.

CEO declaration

I, Shobha Kapoor, Managing Director & CEO of Balaji Telefilms Limited based on confirmation received from all the directors and senior management of the Company, do hereby state that all Board Members and senior management personnel has affirmed compliance with the code of conduct of the Company on annual basis.

Shobha Kapoor
Managing Director & CEO

Mumbai, **9th May 2006**

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 year ended 31st March 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchange.

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 abovementioned Listing Agreement.

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

For **Deloitte Haskins & Sells**,
Chartered Accountants

A. Siddharth
Partner

Mumbai,
Dated: 9th May 2006

For **Snehal & Associates**,
Chartered Accountants

Snehal Shah
Proprietor

Mumbai,
Dated: 9th May 2006

CEO and CFO certification

We, Ms. Shobha Kapoor, Managing Director and CEO of Balaji Telefilms Limited and Mr. V. Devarajan, CFO 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 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 violative 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.

Shobha Kapoor
Managing Director & CEO

Mumbai, **9th May 2006**

V. Devarajan
CFO

Mumbai, **9th May 2006**

Financial section

Auditors' Report

To,
The Members of
Balaji Telefilms Limited

1. We have audited the attached Balance Sheet of Balaji Telefilms Limited as at 31st March 2006, 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 auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of section 227(4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:-
   i. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
   ii. in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of 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, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act 1956;
   vi. in our opinion, and to the best of our information and according to the explanations given to us, the said accounts, 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, 2006;
      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 : 9th May, 2006

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership No.: 40016

Place : Mumbai
Dated : 9th May, 2006

Annexure to Auditors' 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 significant 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 physical verification.

(iv) The Company has not granted/ taken any 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 in the Register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts/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 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 Reserve Bank of India or any Court or any other Tribunal.

(viii) In our opinion, the Company has an internal audit system commensurate with the 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 the 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, 2006 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 in 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 financial 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 any term loan during the year hence the question of commenting on the 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.

(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 : 9th May, 2006

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership No.: 40016

Place : Mumbai
Dated : 9th May, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

(Rupees in lacs)

	Schedules	31st March, 2006		31st March, 2005	
I SOURCES OF FUNDS					
1 Shareholders' funds					
A. Share capital	1	1,304.21		1,304.21	
B. Reserves and surplus	2	23,742.50		20,008.90	
			25,046.71		21,313.11
2 Deferred tax liability (net)			457.35		576.54
Total			**25,504.06**		**21,889.65**
II. APPLICATION OF FUNDS					
1 Fixed assets					
Gross block	3	6,695.15		5,592.80	
Less : depreciation		3,069.59		2,128.64	
Net block		3,625.56		3,464.16	
Capital work in progress		507.44		119.84	
			4,133.00		3,584.00
2 Investments	4		16,238.59		11,374.60
3 Current assets, loans and advances					
A. Inventories	5	1,161.82		2,386.84	
B. Sundry debtors	6	7,369.59		5,349.57	
C. Cash and bank balances	7	623.41		300.44	
D. Loans and advances	8	1,704.78		1,745.34	
		10,859.60		9,782.19	
Less :- Current liabilities and provisions					
A. Current liabilities	9	3,434.08		2,832.38	
B. Provisions	10	2,293.05		18.76	
		5,727.13		2,851.14	
Net current assets			5,132.47		6,931.05
Total			**25,504.06**		**21,889.65**
Significant accounting policies and notes on accounts	16				

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner
Membership No. 31467
Place : Mumbai
Dated : 9th May, 2006

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director & C.E.O.

Ekta Kapoor
Creative Director

For Snehal & Associates
Chartered Accountants

Akshay Chudasama
Director

Dhruv Kaji
Director

Michelle Lee Guthrie
Director

Snehal Shah
Proprietor
Membership No. 40016
Place : Mumbai
Dated : 9th May, 2006

John Yu Leung Lau
Director

Pradeep Sarda
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer
Place : Mumbai
Dated : 9th May, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

(Rupees in lacs)

	Schedules		Previous Year
INCOME			
Turnover		28,037.14	19,674.79
Other income	11	869.43	494.16
Total		**28,906.57**	**20,168.95**
EXPENDITURE			
Cost of production of television serials / feature films	12	15,641.27	10,638.21
Employee costs	13	717.04	539.62
Administrative and other expenses	14	2,312.52	1,761.61
Interest	15	4.64	18.58
Depreciation / Amortisation		1,432.88	974.03
Total		**20,108.35**	**13,932.05**
Profit Before Tax		**8,798.22**	**6,236.90**
Provision for tax			
Current tax [including Rs.2.21 lacs (previous year Rs. 1.20 lacs) for wealth tax]		(2,948.45)	(2,086.20)
Deferred tax		119.19	(21.08)
Fringe Benefit tax		(26.75)	–
Profit After Tax		**5,942.21**	**4,129.62**
Excess provision for tax in respect of earlier years		22.07	21.06
Balance brought forward from previous year		3,250.28	8,832.40
Amount Available for Appropriations		**9,214.56**	**12,983.08**
Appropriations			
1) Interim dividend		–	8,242.60
2) Transferred to general reserve		594.23	413.00
3) Proposed dividend		1,956.31	–
4) Corporate dividend tax		274.37	1,077.20
BALANCE CARRIED TO BALANCE SHEET		**6,389.65**	**3,250.28**
Basic and diluted earnings per share (Refer note 9 of Schedule 16)		**9.15**	**7.61**
Significant accounting policies and notes on accounts	16		

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner
Membership No. 31467
Place : Mumbai
Dated : 9th May, 2006

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director & C.E.O.

Ekta Kapoor
Creative Director

For Snehal & Associates
Chartered Accountants

Akshay Chudasama
Director

Dhruv Kaji
Director

Michelle Lee Guthrie
Director

Snehal Shah
Proprietor
Membership No. 40016
Place : Mumbai
Dated : 9th May, 2006

John Yu Leung Lau
Director

Pradeep Sarda
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer
Place : Mumbai
Dated : 9th May, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

(Rupees in lacs)

	31.3.2006		31.3.2005	
A Cash flow from operating activities				
Profit before extra-ordinary item and tax	**8,798.22**		**6,236.90**	
Adjustments for:				
Depreciation and amortisation	1,432.88		974.03	
Bad debts written off	24.13		13.98	
Loss on sale / discard of fixed assets(net)	50.84		3.82	
Loss due to fire	168.46		–	
Profit on sale of long term investments (non trade) (net)	(217.03)		(251.21)	
Excess provision of earlier years written-back	(3.95)		(53.39)	
Interest expenses	4.64		18.58	
Interest/dividend income	(289.26)		(175.62)	
Operating profit before working capital changes	9,968.93		6,767.09	
(Increase) in trade and other receivable	(1,896.97)		(1,668.79)	
Decrease / (increase) in inventories	1,225.02		(1,658.46)	
Increase in trade payables	609.60		1,554.76	
		9,906.58		**4,994.60**
Direct taxes paid		(3,016.14)		(2,266.18)
Net cash from operating activities (a)		**6,890.44**		**2,728.42**
B Cash flow from investing activities				
Purchase of fixed assets	(2,201.18)		(1,319.39)	
Sale of fixed assets	–		0.25	
Purchase of investments	(9,386.10)		(5,956.53)	
Sale of investments	4,739.14		2,433.24	
Income from investments	289.26		175.62	
Net cash (used in) investing activities (b)		**(6,558.88)**		**(4,666.81)**
C Cash flow from financing activities				
Interest paid	(4.64)		(18.58)	
Dividend paid	(3.95)		(8,749.04)	
Corporate dividend tax paid	–		(1,143.19)	
Proceeds from issue of shares (Including share premium received)	–		12,324.77	
Share issue expenses adjusted against share premium account	–		(280.52)	
Net cash from / (used in) financing activities (c)		**(8.59)**		**2,133.44**
Net increase in cash and Cash equivalents (a+b+c)		**322.97**		**195.05**
Cash and cash equivalents as at 31st March, 2005 (opening balance)	300.44		105.39	
Cash and cash equivalents as at 31st March, 2006 (closing balance)	623.41		300.44	

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner
Membership No. 31467
Place : Mumbai
Dated : 9th May, 2006

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director & C.E.O.

Ekta Kapoor
Creative Director

For Snehal & Associates
Chartered Accountants

Akshay Chudasama
Director

Dhruv Kaji
Director

Michelle Lee Guthrie
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Snehal Shah
Proprietor
Membership No. 40016
Place : Mumbai
Dated : 9th May, 2006

John Yu Leung Lau
Director

Pradeep Sarda
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer
Place : Mumbai
Dated : 9th May, 2006

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

	As at 31st March, 2006	As at 31st March, 2005
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**

	As at 31st March, 2006	As at 31st March, 2005
2 RESERVES AND SURPLUS		
Share premium account		
As per last Balance sheet	14,785.61	3,015.24
Add: Received during the year	–	12,050.89
Less: Share issue expenses adjusted during the year	–	280.52
	14,785.61	14,785.61
General reserve		
As per last Balance sheet	1,973.01	1,560.01
Add: Transfered from Profit and Loss account	594.23	413.00
	2,567.24	1,973.01
Surplus in Profit and Loss account	6,389.65	3,250.28
Total	**23,742.50**	**20,008.90**

3 FIXED ASSETS

	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK	
PARTICULARS	As at 1st April, 2005	Additions	Deductions		Upto 31st March, 2005	For the year	On Deductions	Upto 31st March, 2006	As at 31st March, 2006	As at 31st March, 2005
Buildings	235.75	–	–	235.75	15.50	3.94	–	19.44	216.31	220.25
Plant and machinery - Computers	434.56	76.28	–	510.84	179.89	78.23	–	258.12	252.72	254.67
Plant and machinery - Others	1,457.90	144.40	–	1,602.30	299.40	107.49	–	406.89	1,195.41	1,158.50
Studios and sets	2,614.92	1,090.49	711.23	2,994.18	1,413.98	863.82	491.93	1,785.87	1,208.31	1,200.94
Vehicles	281.31	129.73	–	411.04	98.85	32.19	–	131.04	280.00	182.46
Furniture and fixtures	203.34	30.98	–	234.32	29.87	13.69	–	43.56	190.76	173.47
Computers	216.11	8.39	–	224.50	69.60	35.79	–	105.39	119.11	146.51
Office equipment	120.71	41.07	–	161.78	17.73	6.33	–	24.06	137.72	102.98
Electrical fittings	28.20	2.24	–	30.44	3.82	1.40	–	5.22	25.22	24.38
Sub Total	**5,592.80**	**1,523.58**	**711.23**	**6,405.15**	**2,128.64**	**1,142.88**	**491.93**	**2,779.59**	**3,625.56**	**3,464.16**
Intangible Asset - Tele Serial rights	–	290.00	–	290.00	–	290.00	–	290.00	–	–
Grand Total	**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**	**3,464.16**
Previous Year	**4,383.08**	**1,255.74**	**46.02**	**5,592.80**	**1,196.57**	**974.03**	**41.96**	**2,128.64**	**3,464.16**	
Capital work in progress									507.44	119.84

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

	NO. OF UNITS		VALUE	
	As at 31st March, 2006	As at 31st March, 2005	As at 31st March, 2006	As at 31st March, 2005
4 INVESTMENTS				
LONG TERM INVESTMENTS (NON TRADE)				
UNQUOTED				
IN UNITS OF MUTUAL FUNDS				
Birla Cash Plus - Institutional Dividend Plan - Weekly Dividend	2,808,002	3,640	303.55	0.39
Birla FMP - Annual Plan - Growth	–	3,000,000	–	300.00
Birla Floating Rate Fund - Short Term Plan - Growth	3,823,637	2,854,924	412.87	302.87
Birla Fixed Term Plan Series C - Growth	3,000,000	3,000,000	300.00	300.00
Birla FMP - Quarterly Series 1 - Plan B - Growth	–	975,353	–	100.00
Birla Floating Rate Fund - Short Term - IP - Growth	3,212,271	–	323.36	–
Chola Freedom Income Short Term Fund	435,069	435,069	44.44	44.44
Chola Liquid - IP - Growth	–	434,339	–	56.45
DSP Merrill Lynch - Floating Rate Fund - Growth	2,721,879	1,875,381	293.13	200.00
DSP Merrill Lynch Bond Fund - Floating Rate - Weekly Dividend	1,721,194	1,645,733	172.69	165.12
DSP Merrill Lynch - Floating Rate - Reg - Growth	2,655,243	–	300.00	–
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Growth	49,378	–	500.00	–
Deutsche Floating Rate - Monthly Dividend Reinvest	1,033,178	989,588	105.58	101.13
Deutsche Insta Cash Plus Fund - Weekly Dividend	–	2,986,307	–	302.83
FT MIP Plan A - Quarterly Dividend	1,951,866	1,790,629	229.79	210.56
Grindlays Cash Fund - Growth	18,619	18,619	2.18	2.18
Grindlays Super Saver Short Term Fund	12,783	12,783	1.51	1.51
Grindlays Fixed Maturity - Annual Plan Growth	–	1,000,000	–	100.00
Grindlays Fixed Maturity - 7th Plan B - Growth	3,000,000	3,000,000	300.00	300.00
Grindlays Floating Rate Fund - Long Term - Growth	18,982	18,982	1.95	1.95
Grindlays Floating Rate Fund - Long Term - Plan A - Monthly Dividend	1,217,304	1,167,085	121.80	116.77
Grindlays Floating Rate - Short Term Plan - Monthly Dividend	1,692,447	1,618,779	169.87	162.48
Grindlays Floating Rate - Short Term - Institutional Plan B - Growth	–	6,458,188	–	681.73
Grindlays Floating Rate Fund - Long Term - Plan B - Growth	1,018,887	–	105.52	–
Grindlays Floating Rate Fund - Short Term - Plan C - Growth	9,161,956	–	1,000.00	–
HDFC Monthly Income Plan Short Term Fund - Quarterly Dividend	2,255,881	2,138,620	230.65	218.25
HDFC Fixed Investment Plan - June 2004(2) - Growth	–	2,500,000	–	250.00
HDFC Floating Rate Income Fund - Short Term Plan - Growth	–	3,324,364	–	361.34
HDFC Floating Rate Income Fund - Short Term Plan - Weekly Dividend	708,488	681,413	71.10	68.37
HDFC Cash Management Fund Savings Plan - Weekly Dividend	4,000,568	3,826,957	425.46	407.02
HDFC Cash Management Fund Savings Plus Plan - Weekly Dividend	3,018,710	–	302.61	–
HDFC FMP 13M March 2006 (1) - Institutional Plan - Gorwth	2,000,000	–	200.00	–
HDFC Cash Management Fund Savings Plan - Growth	2,058,277	–	300.00	–
HDFC Floating Rate Income Fund - Long Term - Growth	2,340,156	–	268.15	–
HSBC Cash Fund - Institutional - Monthly Dividend	5,039,076	4,822,596	526.92	504.30
HSBC Fixed Term Series - 4 - Growth	3,000,000	–	300.00	–
HSBC Floating Rate Fund - Short Term - Institutional Option - Growth	950,814	–	100.00	–
ING Vysya Liquid Fund - Weekly Dividend	–	2,801,890	–	302.78
JM Floater Fund - Short Term Plan - Growth	4,424,920	1,952,384	494.08	212.07
JM High Liquid - Institutional Plan - Dividend	1,045,841	1,004,987	105.03	100.93
JM Equity and Derivative Fund - Growth	2,904,062	–	300.00	–
Kotak FMP (8) - Growth	–	3,000,000	–	300.00
Kotak FMP Series 1 - Growth	3,000,000	3,000,000	300.00	300.00
Kotak Floater - Short Term - Monthly Dividend	2,229,868	2,132,960	223.07	213.37
Kotak Liquid (Institutional Premium) - Weekly Dividend	2,132,299	2,037,936	213.98	204.52
Kotak Floater Short Term Growth	2,901,829	–	317.68	–
Kotak FMP Series XIV - Growth	3,000,000	–	300.00	–
Magnum Debt Fund Series - 15 Months (Jan 05) - Growth Option	3,000,000	3,000,000	300.00	300.00
Principal Cash Management Fund - Money At Call - Daily Dividend	–	3,022,736	–	302.27
Principal Income Fund - Short Term - Institutional Plan - Growth	1,750,011	–	200.00	–
Prudential I.C.I.C.I. Flexible Income Plan - Dividend	395,659	382,069	43.90	42.49

(Rupees in lacs)

	NO. OF UNITS		VALUE	
	As at 31st March, 2006	As at 31st March, 2005	As at 31st March, 2006	As at 31st March, 2005
4 INVESTMENTS (Contd.)				
Prudential I.C.I.C.I. Floating Rate Plan - Growth	–	1,454,516	–	152.90
Prudential I.C.I.C.I. Floating Rate Plan - Dividend	4,149,711	3,965,792	416.94	398.44
Prudential I.C.I.C.I. Liquid Plan - Dividend	–	1,722,680	–	203.97
Prudential I.C.I.C.I. FMP Plan 1 - Growth	3,000,000	3,000,000	300.00	300.00
Prudential I.C.I.C.I. Short Term Plan - Growth	2,737,958	–	350.00	–
Prudential I.C.I.C.I. Long Term Floating Rate Plan A - Growth	1,542,618	–	164.22	–
Prudential I.C.I.C.I. Floating Rate Plan A - Growth	19,733	–	2.03	–
Reliance Fixed Term Plan - Annual - Growth	–	3,000,000	–	300.00
Reliance Floating Rate Fund - Monthly Dividend	1,064,023	1,064,023	107.09	107.09
Reliance Fixed Tenor Fund Plan B - Growth Plan	3,000,000	–	300.00	–
Reliance Floating Rate Fund - Growth	4,013,441	–	416.34	–
Tata Monthly Income Fund - Dividend	2,831,183	2,711,911	325.85	312.02
Tata Fixed Horizon Series 1 - Plan A (371 days) - Growth	3,500,000	3,500,000	350.00	350.00
Tata Floating Rate Short Term Institutional Plan - Growth	5,692,492	–	600.00	–
Templeton Treasury Management Account - Daily Dividend	7,065	6,780	106.89	102.58
Templeton Floating Rate Income Fund - Long Term Plan - Growth	–	2,213,619	–	255.25
Templeton Floating Rate Income Fund - Long Term Plan - Dividend	3,404,962	3,288,251	348.73	336.76
Templeton India Short Term Income Plan Growth	44,234	–	550.00	–
UTI - Fixed Term Income Fund - Series 1 - Plan 18 - Q3 Growth Plan	3,000,000	–	300.00	–
UTI Floating Rate Fund - Short Term Plan - Growth	5,429,541	–	600.00	–
UTI Liquid Cash Plan - Institutional - Daily Income	27,419	49,809	276.35	504.19
			15,725.31	**10,861.32**
Quoted				
6.75% Tax free Bonds of Unit Trust of India of Rs.100/- each	500,000	500,000	513.28	513.28
Total			**16,238.59**	**11,374.60**

(Rupees in lacs)

	Notes :	**Cost**	**Market value**
1	Aggregate of Quoted Invetsments	513.28	508.45
	Previous Year	513.28	523.75
	Aggregate of Unquoted Investments	15,725.31	
	Previous Year	10,861.32	
	Total	**16,238.59**	
	Previous year	11,374.60	

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

Particulars	**Nos.**	**Cost**
ING Vysya Liquid Fund - Weekly Dividend	32,687	3.53
Deutsche Insta Cash Plus Fund - Weekly Dividend	119,240	12.10
Principal Cash Management Fund - Money At Call - Daily Dividend	295	0.03
Prudential I.C.I.C.I. Liquid Plan - Dividend	2,610,255	309.09

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

Particulars	**Nos.**	**Cost**
HDFC Cash Management Fund - Savings Plan - Weekly Dividend	1,888,082	200.72
Kotak Dynamic Bond Fund - Dividend	983,081	100.00
Birla Cash Plus - Institutional Plan - Dividend	5,261,805	567.94
Birla MIP II - Savings 5 Plan - Dividend	3,002,671	300.27
Prudential ICICI Liquid Plan - Dividend	2,534,447	299.91
Deutsche Dynamic Bond Fund - I.P. - Dividend	976,877	100.00
Templeton Treasury Management Account - Daily Dividend	73	1.10
Kotak Liquid (Institutional Premium) - Weekly Dividend	2,991,355	309.84
Birla Cash Plus - Daily Dividend	6,440	1.05
Birla Cash Plus - Institutional Plan - Weekly Dividend	2,774,669	300.22
Prudential ICICI Liquid Plan - Daily Dividend	8,236	0.98

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

	As at 31st March, 2006	As at 31st March, 2005
5 INVENTORIES		
Television serials / feature films	1,141.05	2,367.24
Tapes	20.77	19.60
Total	**1,161.82**	**2,386.84**
6 SUNDRY DEBTORS		
(Unsecured and considered good)		
Debts outstanding for a period exceeding six months	531.50	199.41
Other debts	6,838.09	5,150.16
Total	**7,369.59**	**5,349.57**
7 CASH AND BANK BALANCES		
Cash on hand	37.30	19.23
Balances with scheduled banks		
In Current accounts	515.35	204.60
In Fixed deposit accounts (over which bank has a lien)	70.76	76.61
	586.11	281.21
Total	**623.41**	**300.44**
8 LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	385.15	548.50
Advance tax	491.20	384.58
Deposits*	828.43	812.26
Total	**1,704.78**	**1,745.34**
Notes :		
1. *: Includes deposits given to directors for property taken on lease from them	630.00	615.00
2. Maximum amount outstanding at any time during the year for above deposits	630.00	615.00
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	2,800.25	2,314.86
	2,800.25	2,314.86
Advances received from customers	55.30	112.68
Other liabilities	578.53	404.84
Total	**3,434.08**	**2,832.38**
10 PROVISIONS		
Provision for tax	62.37	18.76
Provision for Fringe benefit tax (net)	–	–
Proposed dividend	1,956.31	–
Corporate dividend tax	274.37	–
Total	**2,293.05**	**18.76**

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

(Rupees in lacs)

				Previous Year
11 OTHER INCOME				
Interest on fixed deposits with banks (gross)		18.41		13.69
(Tax deducted at source Rs. 4.13 lacs (previous year Rs. 2.95 lacs)				
Interest on Tax Free Bonds		33.75		42.19
Interest on Income tax refund		6.48		–
Insurance Claim Received		344.66		
Dividend on long term investments (non trade)		230.62		119.74
Excess provision of earlier years written back		3.95		53.39
Profit on sale of long term investments (non trade) (net)		217.03		251.21
Miscellaneous income		14.53		13.94
Total		**869.43**		**494.16**
12 COST OF PRODUCTION OF TELEVISION SERIALS / FEATURE FILMS				
Opening stock of television serials / feature films and tapes		2,386.84		728.37
Add: Cost of production				
Purchase of costumes and dresses	301.19		239.67	
Purchase of tapes	373.33		286.32	
Payments to and provision for artistes, junior artistes, dubbing artistes fees	3,788.07		3,051.37	
Payments to and provision for directors, technicians and other fees	4,380.75		3,855.69	
Shooting and location expenses	1,445.99		1,562.61	
Telecasting fees	1,452.46		1,129.29	
Uplinking charges / Special dispatch charges	162.64		200.63	
Food and refreshments	355.83		323.33	
Set properties and equipment hire charges	1,000.19		792.99	
Other production expenses	1,155.80	14,416.25	854.78	12,296.68
		16,803.09		13,025.05
Less: Closing stock of television serials / feature films and tapes		1,161.82		2,386.84
Total		**15,641.27**		**10,638.21**
13 EMPLOYEE COSTS				
Salaries, wages and bonus		683.28		507.41
Contribution to Provident and Other funds		15.32		12.15
Staff welfare expenses		18.44		20.06
Total		**717.04**		**539.62**

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

(Rupees in lacs)

		Previous Year
14 ADMINISTRATIVE AND OTHER EXPENSES		
Electricity and water charges	273.45	229.35
Lease rent	309.12	190.81
Rates and taxes	21.14	18.13
Insurance	217.79	418.57
Repairs and maintenance		
- Building	–	2.50
- Plant and machinery	18.99	40.29
- Others	155.84	79.72
Travelling and conveyance expenses	146.31	115.45
Legal and professional charges	363.87	239.97
Communication charges	63.32	61.47
Loss on sale / discard of fixed assets (net)	50.84	3.82
Loss due to fire at studio	168.46	–
Donations	18.28	22.57
Bad debts written off	24.13	13.98
Director's sitting fees	2.20	1.55
Advertisement and sales promotion expenses	53.92	25.82
Miscellaneous expenses	424.86	297.61
Total	**2,312.52**	**1,761.61**

15 INTEREST		
On cash credit account	4.64	13.80
On income / wealth tax	–	4.78
Total	**4.64**	**18.58**

SCHEDULE FORMING PART OF THE 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.

Doubtful debts / advances

Provision is made in the accounts for debts / advances which in the opinion of the management are considered doubtful of recovery.

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 recognised 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 recognised 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	–	48.19
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	115.44	81.83
Commission	458.24	319.43
Perquisites in cash or in kind	–	0.70
Contribution to Provident Fund	7.92	5.49
Artistes fees	–	19.64
Total	**581.60**	**427.09**

16 Significant accounting policies and notes on accounts (Contd.)

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		**8,798.22**		**6,236.90**
Add:				
Loss on sale of fixed assets	–		3.82	
Managerial remuneration	581.60		406.75	
Directors sitting fees	2.20		–	
		583.80		410.57
		9,382.02		6,647.47
Less: Profit on sale of long term investments (non-trade) (net)	217.03		251.21	
		217.03		251.21
Net Profit for the year		**9,164.99**		**6,396.26**
Commission @ 2% each to the Executive Directors (previous year 2% each)		366.60		255.86
Commission @ 0.90% (previous year 0.90%) to the Chairman		82.48		57.57
Commission @ 0.10% to other Non-Executive Directors (previous year 0.10%, restricted to Rs.2 lacs each)		9.16		6.00

5. Payment to auditors

(Rupees in lacs)

		Previous year
a) as auditors	13.00	8.00
b) as advisor, or in any other capacity, in respect of company law matters	–	0.75
c) in any other manner (certification work, etc)	4.50	4.70
d) as expenses	0.08	0.04
e) for service tax	0.04	0.12
Total	**17.62**	**13.61**

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. 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.

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	Enterprises over which key management personnel and their relatives are able to exercise significant influence		Key management personnel		Relatives of key management personnel		Total	
		Previous year		Previous year		Previous year		Previous Year
Directors sitting fees								
Mr. Jeetendra Kapoor	–	–	0.50	0.45	–	–	0.50	0.45
Mr. Tusshar Kapoor	–	–	–	0.15	–	–	–	0.15
Rent								
Mr. Jeetendra Kapoor	–	–	7.20	7.20	–	–	7.20	7.20
Mrs. Shobha Kapoor	–	–	65.52	5.52	–	–	65.52	5.52
Mr. Tusshar Kapoor	–	–	2.40	2.40	–	–	2.40	2.40
Others	0.60	0.60	0.72	0.72	–	–	1.32	1.32
Recovery and payment of artistes registration fees								
M/s. Screentestindia.com Pvt. Ltd.	1.43	0.03	–	–	–	–	1.43	0.03
Managerial remuneration								
Mrs. Shobha Kapoor	–	–	239.10	167.93	–	–	239.10	167.93
Ms. Ekta Kapoor	–	–	239.10	167.93	–	–	239.10	167.93
Mr. Jeetendra Kapoor	–	–	82.48	57.57	–	–	82.48	57.57
Others	–	–	11.76	8.02	–	–	11.76	8.02
Artistes fees								
Mr. Tusshar Kapoor	–	–	–	19.64	–	–	–	19.64
Dividend paid								
Mrs. Shobha Kapoor	–	–	–	1688.95	–	–	–	1688.95
Ms. Ekta Kapoor	–	–	–	1653.59	–	–	–	1653.59
Mr. Jeetendra Kapoor	–	–	–	946.48	–	–	–	946.48
Mr. Tusshar Kapoor	–	–	–	345.14	–	–	–	345.14
Others	–	–	–	–	–	1.71	–	1.71
Amount payable as at 31st March, 2006								
Mrs. Shobha Kapoor	–	–	187.95	130.28	–	–	187.95	130.28
Ms. Ekta Kapoor	–	–	187.95	130.28	–	–	187.95	130.28
Mr. Jeetendra Kapoor	–	–	82.48	57.57	–	–	82.48	57.57
Others	0.47	0.39	1.15	19.70	0.10	0.10	1.72	20.19
Amount receivable (Deposits for lease property) as at 31st March, 2006								
Mrs. Shobha Kapoor	–	–	222.50	207.50	–	–	222.50	207.50
Mr. Jeetendra Kapoor	–	–	300.00	300.00	–	–	300.00	300.00
Mr. Tusshar Kapoor	–	–	100.00	100.00	–	–	100.00	100.00
Others	–	–	7.50	7.50	–	–	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.

16 Significant accounting policies and notes on accounts (Contd.)

8. 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	23,499.23	16,481.98	3,456.15	3,192.81	1,081.76	–	28,037.14	19,674.79
Add: Inter Segment sale	–	–	–	–	–	–	–	–
Total Revenue	**23,499.23**	**16,481.98**	**3,456.15**	**3,192.81**	**1,081.76**	**–**	**28,037.14**	**19,674.79**
RESULTS								
Segment result	11,100.44	7,419.15	693.94	777.74	(391.48)	–	11,402.90	8,196.89
Unallocable Corporate Expenses	–	–	–	–	–	–	(3,106.33)	(2,368.24)
Operating Profit							8,296.57	5,828.65
Interest Expense	–	–	–	–	–	–	(4.64)	(18.58)
Interest income/Dividend on Long-Term Investments	–	–	–	–	–	–	289.26	175.62
Profit on sale of Long-Term Investments (non trade)	–	–	–	–	–	–	217.03	251.21
Provision for tax							(2,856.01)	(2,107.28)
Profit after tax							5,942.21	4,129.62
OTHER INFORMATION:								
Segment assets	10,316.56	7,657.34	1,290.34	1,571.37	469.23	1,632.65	12,076.13	10,861.36
Unallocated Corporate assets							19,155.06	13,879.43
Total assets							**31,231.19**	**24,740.79**
Segment liabilities	2,451.85	1,162.90	104.29	171.70	82.32	403.24	2,638.46	1,737.84
Unallocated Corporate liabilities	–	–	–	–	–	–	3,546.02	1,689.84
Total Liabilities							**6,184.48**	**3,427.68**
Capital expenditure	1,818.61	1,077.25					1,818.61	1,077.25
Depreciation	1,049.54	892.40					1,049.54	892.40
Significant Non cash expenses other than depreciation								
Loss on sale / discard of fixed assets (net)	–	–					50.84	3.82
Loss due to fire at Studio	–	–					168.46	–
Bad debts written off	–	–					24.13	13.98

(B) The Company does not have any reportable Secondary Segments

16 Significant accounting policies and notes on accounts (Contd.)

9. Earnings 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)	5,942.21	4,129.62
Excess provision for tax in respect of earlier years -(Rs.in lacs)	22.07	21.06
(A) Profit for the year attributable to equity share holders-(Rs.in lacs)	5,964.28	4,150.68
(B) Weighted average number of equity shares outstanding during the year (Nos.)	65,210,443	54,555,235
(C) Earnings per share - Basic and diluted (Rs.)	9.15	7.61
(D) Nominal value of shares (Rs.)	2	2

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

	As at 31st March, 2006	As at 31st March, 2005
Difference between the books and the written down values of fixed assets	(457.35)	(576.54)
Deferred tax asset/ (liability)-net Total	**(457.35)**	**(576.54)**

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)*

		Previous Year
1) Amount due within 1year	14.40	10.80
2) Amount due later than 1year and not later than 5 years	21.60	–
3) Amount due later than 5 years	–	–
	36.00	**10.80**

b) Amount of lease rentals charged to the profit and loss account in respect of operating leases is Rs.309.12 lacs (previous year Rs.190.81 lacs)

12. Unutilised money aggregating to Rs.NIL (previous year Rs.2704.00 lacs) out of the issue of shares have been partly invested in the units of mutual funds Rs. NIL (previous year Rs.2500.00 lacs) and the balance are lying in current account with the bank Rs.NIL (previous year Rs.204.00 lacs).

13. 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 in lacs)*

		Previous Year
a. Expenditure in foreign currency		
Travelling expenses	139.66	178.51
b. Earnings in foreign exchange:		
Export of television software/ serials	79.16	109.42

c. 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:-

SCHEDULE FORMING PART OF THE ACCOUNTS

16 Significant accounting policies and notes on accounts (Contd.)

Amount of Dividend *(Rupees in lacs)*

Year to which dividend relates		Previous Year
a) Final dividend for the financial year 2003-2004 (Nos.)	–	515.16
b) Interim dividend for the financial year 2004-2005 (Nos.)	–	8242.60

Number of non-resident shareholders *(Rupees in lacs)*

Year to which dividend relates		
a) Final dividend for the financial year 2003-2004	–	192
b) Interim dividend for the financial year 2004-2005	–	189

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

Year to which dividend relates		
a) Final dividend for the financial year 2003-2004 (Nos.)	–	1,36,305
b) Interim dividend for the financial year 2004-2005 (Nos.)	–	2,06,045

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

Year to which dividend relates		
a) Final dividend for the financial year 2003-2004	–	1.36
b) Interim dividend for the financial year 2004-2005	–	32.97

14. 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 : 9th May, 2006

For Snehal & Associates
Chartered Accountants

Snehal Shah
Proprietor
Membership No. 40016
Place : Mumbai
Dated : 9th May, 2006

For and on behalf of Balaji Telefilms Limited

Jeetendra Kapoor *Chairman*

Shobha Kapoor *Managing Director & C.E.O.*

Ekta Kapoor *Creative Director*

Akshay Chudasama *Director*

Dhruv Kaji *Director*

Michelle Lee Guthrie *Director*

John Yu Leung Lau *Director*

Pradeep Sarda *Director*

Alpa Shah *Company Secretary*

V. Devarajan *Chief Financial Officer*

Place : Mumbai
Dated : 9th May, 2006

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.	1 1 – 8 2 8 0 2	State Code	1 1
Balance Sheet Date	3 1 0 3 2 0 0 6		

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

Public Issue	Right Issue
N I L	N I L
Bonus Issue	Private Placement
N I L	N I L

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

Total Assets	Total Liabilities
2 5 5 0 4 0 6	2 5 5 0 4 0 6

Sources of Funds

Paid-up Capital	Reserves & Surplus
1 3 0 4 2 1	2 3 7 4 2 5 0
Secured Loans	Unsecured Loans
N I L	N I L

Application of Funds

Net Fixed Assets	Investments
4 1 3 3 0 0	1 6 2 3 8 5 9
Net Current Assets	Miscellaneous Expenditure
5 1 3 2 4 7	N I L
Accumulated Losses	Deferred Tax Liability (Net)
N I L	(4 5 7 3 5)

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

Turnover	Total Expenditure
2 8 9 0 6 5 7	2 0 1 0 8 3 5
Profit/(Loss) before Tax	Profit/(Loss) after Tax
8 7 9 8 2 2	5 9 4 2 2 1
Earning per Share (in Rs.)	Dividend rate (%)
9 . 1 5	1 5 0

V. Generic names of principal products of the company

Item Code No. (ITC Code)	Not Applicable
Product Description	Television software / serials / feature films