

UTV COMMUNICATIONS (USA) LLC

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
(FOR GROUP CONSOLIDATION)

FOR THE YEARS ENDED MARCH 31, 2010 AND MARCH 31, 2009

UTV COMMUNICATIONS (USA) LLC

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The CPA. Never Underestimate The Value.®

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INDEPENDENT AUDITORS' REPORT
(FOR GROUP CONSOLIDATION)

The Member
UTV Communications (USA) LLC

We have audited the accompanying balance sheet of UTV Communications (USA) LLC as of March 31, 2010 and March 31, 2009, and the related statements of income and member's equity for the years then ended. These financial statements are the responsibility of the company's management and the group consolidation entries are based on the representation of the management of the UTV Software Communications Ltd, the parent company. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTV Communications (USA) LLC as of March 31, 2010 and March 31, 2009, and the results of operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Rajeev Aggarwal", written over a horizontal line.

RAJEEV AGGARWAL
Certified Public Accountant

May 14, 2010

UTV COMMUNICATIONS (USA) LLC

BALANCE SHEETS
FOR THE YEARS ENDED MARCH 31, 2010 AND MARCH 31, 2009

	31-Mar-10	31-Mar-09
ASSETS		
Current Assets		
Cash and cash equivalents	222,450	128,541
Accounts receivable	1,727,692	6,690,012
Unbilled receivables	157,949	295,224
Inventories	78,667	84,304
Acquisition	17,275,960	31,639,052
Films in progress	<u>107,096</u>	<u>41,595</u>
Total current assets	<u>19,569,813</u>	<u>38,878,729</u>
Other Assets		
Security deposits	17,307	17,307
Prepayment & advances	<u>185,791</u>	<u>184,257</u>
Total other assets	<u>203,098</u>	<u>201,564</u>
Property and equipment, net of depreciation	<u>2,802</u>	<u>6,665</u>
Investments:		
Redeemable Pref Shares	<u>9,515,000</u>	<u>9,515,000</u>
Total Investments	<u>9,515,000</u>	<u>9,515,000</u>
TOTAL ASSETS	<u>29,290,714</u>	<u>48,601,958</u>
LIABILITIES AND MEMBER'S EQUITY	-	-
Current Liabilities		
Accounts payable	528,160	392,186
Advances from customers	158,989	78,329
Accrued expenses and taxes	51,384	52,210
Provision for Contingencies	981,354	5,299,313
Due to related party	<u>14,258,581</u>	<u>32,131,437</u>
Total current liabilities	<u>15,978,468</u>	<u>37,953,475</u>
Other Liabilities:		
Advance preference share application money	<u>9,507,220</u>	<u>9,507,220</u>
Total other liabilities	<u>9,507,220</u>	<u>9,507,220</u>
Member's Common Equity	<u>3,467,821</u>	<u>(4,674,263)</u>
Accumulated other Comprehensive Income (Loss)	337,204	5,815,527
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$29,290,713</u>	<u>\$48,601,958</u>

The accompanying notes and auditors' report should be read with financial statements.

UTV COMMUNICATIONS (USA) LLC

STATEMENT OF INCOME AND MEMBER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2010 AND MARCH 31, 2009

	31-Mar-10	31-Mar-09
Net revenue	18,255,653	8,633,908
Cost of operations	16,270,108	7,825,827
Gross profit	<u>1,985,545</u>	<u>808,081</u>
Selling, general and administrative expenses	417,938	464,360
Income from operations	<u>1,567,607</u>	<u>343,721</u>
Interest income	2,725	112
Foreign Exchange Gains / (Loss)	2,253,793	49,913
Contingency Reserve -provided at group consolidation	0	(5,299,313)
Contingency Reserve -utilized at group consolidation	3,913,834	0
Contingency Reserve -reversed at group consolidation	<u>404,125</u>	<u>0</u>
Income before income taxes	<u>8,142,084</u>	<u>(4,905,567)</u>
Provision for income taxes	0	0
Net income	<u>8,142,084</u>	<u>(4,905,567)</u>
Member's equity –beginning	(4,674,263)	231,304
Member's equity –end	<u>\$3,467,821</u>	<u>(\$4,674,263)</u>

The accompanying notes and auditors' report should be read with financial statements.

UTV COMMUNICATIONS (USA) LLC

Summary of Significant Accounting Policies & Notes on Accounts:

Nature of Business

UTV Communications (USA) LLC ("the Company") was formed on April 26, 2004, under the laws of the State of Delaware. The Company engages in distribution, marketing and sale of cinematographic films, including producing, sale, and distribution of films in video cassettes, video discs, video compact discs and DVD format throughout the United States and other countries. The Company's sole member is UTV Software Communications Ltd. Mumbai, India.

Foreign Currency Translation:

According to SFAS 52, "Foreign Currency Translation", gain or loss is realized on the settlement of functional currency. The company's related party dues are designated at the local currency of such related party. As of March 31, 2010 the company has an unrealized gain of \$337,204 (as of March 31, 2009 the unrealized gain is \$5,815,527) which will be recognized as a gain or loss upon settlement. Resulting foreign currency translation adjustments are recorded as foreign currency translation reserve, a separate component of stockholder's equity. For the year ending March 31, 2010, an amount of \$2,253,793 has been realized as foreign currency translation gain ((for the year ending March 31, 2009 the foreign currency translation gain is \$49,913) on the settlement of the payables in the local currency.

Amortization of Acquisition and Deferred Costs and Revenue Recognition

In accordance with Statement of Position ("SOP") No. 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"), the Company capitalizes, and amortizes acquisition and deferred costs and accrues (expenses) related costs using the individual-film-forecast-computation method, which amortizes or accrues (expenses) such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year (denominator).

The Company begins amortization of such capitalized costs when a film is released and begins to recognize the revenue from that film. The film cost is stated at the lower of unamortized cost or estimated fair value on an individual film.

In respect of Bollywood films, which are distributed the total revenue are forecasted over the distribution license period. In respect of Hollywood films which are produced the total revenue are forecasted over a period of ten years though the rights in the films are in perpetuity.

Revenue forecasts for the films are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and other events or changes in circumstances indicate that a film has a fair value that is less than its unamortized cost, a loss is recognized currently for the amount by which the unamortized cost exceeds the film fair value.

UTV COMMUNICATIONS (USA) LLC

Provision for Contingencies – Considered at Group Consolidation:

UTV Communications (USA) LLC, is a 100% owned entity of UTV Software Communications Ltd, the parent company, and as part of consolidation of group accounts for the year ending March 31, 2009, the management of the parent company, as a matter of abundant caution and prudent conservatism provided contingency reserve for an amount of \$5,299,313, to meet any contingencies that could emanate from worldwide economic recession, volatility in foreign exchange market and liquidity squeeze which were potential risks in movie production & distribution businesses. The said contingency reserve were periodically reviewed by the parent company at the group consolidation level and for the year ending March 31, 2010, the contingency reserve for an amount of \$3,913,834 has been utilized, an amount of \$404,125 has been reversed as no longer required and the balance amount of \$981,354 is carried forward.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). The company's provision for income tax is comprised on a current and a deferred portion. The current income tax provision is calculated as estimated taxes payable or refundable on the tax returns for the current year. There are no tax dues on the current year tax returns. The deferred income tax provision is calculated for the estimated future tax effects attributable to temporary differences and carry forwards using expected tax rates in effect in the years during which the difference are expected to reverse or the carry forwards are expected to be realized.

Accounts Receivable

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. The company has not provided any provision for doubtful accounts as of March 31, 2010 and 2009, since all debtors are considered collectible.

Unbilled Receivables

The Company distributes films to movie theatres. When the share of revenue is not guaranteed to the Company, the Company records estimated share of revenue based as per industry practice, and historical experience. The balance of the revenue is recorded when received.

Inventories

Inventories consist of DVDs and are stated at the lower of average cost or market.

UTV COMMUNICATIONS (USA) LLC

Property, Equipment and Depreciation

Property and equipment is stated at cost. Major expenditures for property and expenditures that substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation is removed from the accounts and resulting gains or losses are included in operations. Depreciation is computed by using straight-line methods over the estimated useful lives of the related assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred and included in cost of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Related Party Transaction

During the current year ended March 31, 2010, the company made purchases for \$1,775,741 (previous year \$6,475,434) from related parties. As of March 31, 2010, the due to related parties are \$14,267,153 (previous year \$32,131,437) and due from a related party is \$8,572 (previous year \$8,572).

Cash and Cash Equivalents

For the year ended March 31, 2010 and 2009, the bank balance are within the FDIC insured limit of \$250,000 per bank.

UTV COMMUNICATIONS (USA) LLC

Commitment and Contingency

Service Charges / Fees by Parent Company:

The company is availing services / facilities from its parent company for its operations and it may be liable to pay reasonable service charges and or fees for such support/ facilitation services. No such provision has been made for the years ended March, 31, 2010 and March 31, 2009.

Corporate Guarantees:

- (a) As of March 31, 2010, the company has guaranteed working capital loans secured by its parent company from a group of eleven lenders represented by its security Trustee, SBI capital Trust Ltd, Mumbai, India, for a sanctioned limit of INR 4245.00 million. The company has also granted security interest on the assets (accounts receivable, inventory, goods, equipment and fixtures) of the company in favor of the lenders.
- (b) As of March 31, 2010, the company has also guaranteed non-convertible debenture loans secured by its parent company from Life Insurance Corporation of India, for an amount of INR 1000.00 million.
- (c) As of March 31, 2010, the company has commitment to provide guarantee to credit facilities by way of Term Loan secured by its parent company from Exim Bank, India, for an amount of US\$15.00 million. The company proposes to provide guarantee and create security interest on its assets for these loans in favor of the lenders.
- (d) As of March 31, 2010, the company has commitment to provide guarantee to credit facilities by way of Standby Letters of Credit / Bank Guarantee secured by its fellow subsidiary company from DBS Bank Ltd, for an amount of US\$10.00 million, from Standard Chartered Bank, for an additional amount of \$4.50 million, and from Axis bank Ltd, for an amount of \$10.00 million. The company proposes to provide guarantee and create security interest on its assets for these loans in favor of the lenders.

Operating Lease

The Company has rented office facilities in New Jersey with one year lease expiring in November 2010 and the company has rented office facility in California on month to month lease term with 2 months notice of termination.

UTV COMMUNICATIONS (USA) LLC

SUPPLEMENTARY INFORMATION

COST OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2010 AND MARCH 31, 2009

	Year Ending 31-Mar-10	Year Ending 31-Mar-09
Inventories – Beginning	84,304	87,101
Purchases – Film rights & prints	15,552,744	7,180,644
Shipping & Freight & Logistics Cost	284,550	252,359
DVD cost	89,145	102,824
Advertisement & Promotion Cost	<u>338,032</u>	<u>287,203</u>
	<u>16,348,774</u>	<u>7,910,131</u>
Less: Inventories – End	78,667	84,304
Cost of Operations	<u>\$16,270,108</u>	<u>\$7,825,827</u>

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED MARCH 31, 2010 AND MARCH 31, 2009

	Year Ending 31-Mar-10	Year Ending 31-Mar-09
Personnel	272,414	154,056
Bonus	0	85,000
Welfare	22,795	17,978
Bank Charges	1,247	627
Box Office & Distribution support service	6,000	6,000
Dues & Subscription	5,914	827
Office Supplies	1,920	1,863
Professional Fee	30,395	114,600
Rent	44,412	40,843
Communications	7,194	8,326
Travel, Entertainment & Conferences	13,358	29,751
Other Expenses	5,357	430
Depreciation	6,932	4,058
	<u>\$417,938</u>	<u>\$464,360</u>