

UTV COMMUNICATIONS (USA) LLC

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

FOR THE YEARS ENDED MARCH 31, 2011 AND MARCH 31, 2010

UTV COMMUNICATIONS (USA) LLC

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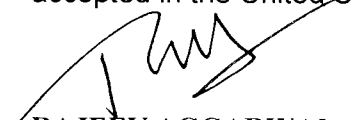
INDEPENDENT AUDITORS' REPORT
(FOR GROUP CONSOLIDATION)

The Member
UTV Communications (USA) LLC

We have audited the accompanying balance sheet of UTV Communications (USA) LLC as of March 31, 2011 and March 31, 2010, 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, 2011 and March 31, 2010, and the results of operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


RAJEEV AGGARWAL
Certified Public Accountant

May 5, 2011

UTV COMMUNICATIONS (USA) LLC

BALANCE SHEETS
FOR THE YEARS ENDED MARCH 31, 2011 AND MARCH 31, 2010

	31-Mar-11	31-Mar-10
ASSETS		
Current Assets		
Cash and cash equivalents	180,581	222,450
Accounts receivable	1,790,522	1,727,692
Unbilled receivables	300,374	157,949
Inventories	0	78,667
Acquisition	15,940,780	17,275,960
Films in progress	23,731	107,096
Total current assets	<u>18,235,988</u>	<u>19,569,814</u>
Other Assets		
Security deposits	17,307	17,307
Prepayment & advances	2,079,445	185,791
Total other assets	<u>2,096,752</u>	<u>203,098</u>
Property and equipment, net of depreciation	<u>1,887</u>	<u>2,802</u>
Investments:		
Redeemable Preference Shares	9,515,000	9,515,000
Total Investments	<u>9,515,000</u>	<u>9,515,000</u>
TOTAL ASSETS	<u>29,849,627</u>	<u>29,290,714</u>
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities		
Accounts payable	475,895	528,160
Advances from customers	69,279	158,989
Accrued expenses and taxes	50,585	51,385
Provision for Contingencies	0	981,354
Due to related party	22,408,289	14,258,581
Total current liabilities	<u>23,004,048</u>	<u>15,978,469</u>
Other Liabilities:		
Advance preference share application money	0	9,507,220
Total other liabilities	<u>0</u>	<u>9,507,220</u>
Member's Common Equity	<u>6,419,511</u>	<u>3,467,821</u>
Accumulated other Comprehensive Income (Loss)	<u>426,068</u>	<u>337,204</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$29,849,627</u>	<u>\$29,290,714</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, 2011 AND MARCH 31, 2010

STATEMENT OF INCOME & MEBERS EQUITY		
	31-Mar-11	31-Mar-10
Net revenue	8,009,509	18,255,653
Cost of operations	6,995,737	16,270,108
Gross profit	<u>1,013,772</u>	<u>1,985,545</u>
Selling, general and administrative expenses	467,491	417,938
Income from operations	<u>546,281</u>	<u>1,567,607</u>
Interest income	39	2,725
Foreign Exchange Gains / (Loss)	1,424,016	2,253,793
Contingency Reserve at group consolidation - Utilized	0	3,913,834
Contingency Reserve at group consolidation - Reversed	981,354	404,125
Income before income taxes	<u>2,951,690</u>	<u>8,142,084</u>
Provision for income taxes	0	0
Net income	<u>2,951,690</u>	<u>8,142,084</u>
Member's equity -beginning	3,467,821	(4,674,263)
Member's equity -end	<u>\$6,419,511</u>	<u>\$3,467,821</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, 2011 the company has an unrealized gain of \$426,068 (as of March 31, 2010 the unrealized gain is \$337,204) 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, 2011, an amount of \$1,424,106 has been realized as foreign currency translation gain ((for the year ending March 31, 2010 the foreign currency translation gain is \$2,253,793) 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 unamortized cost, a loss is recognized currently for the amount by which the unamortized cost exceeds the film fair value.

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Provision for Contingencies – Considered at Group Consolidation:

The management of the parent company as part of consolidation of group accounts, for the year ending March 31, 2009, provided contingency reserve for an amount of \$5,299,313, to meet any contingencies that would emanate from worldwide economic recession, volatility in foreign exchange market and liquidity squeeze which were potential risks in movie production & distribution businesses. Based on review for the year ending March 31, 2010, the contingency reserve for an amount of \$3,913,834 was utilized, an amount of \$404,125 was reversed as no longer required and an amount of \$981,354 was retained to be carried forward. Based on further review for the year ending March 31, 2011, the remainder contingency reserve for an amount of \$981,354 was reversed as no longer required.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). No additional provision for Income tax is required for the current financial year ending March 31, 2011, in view of amortization of Hollywood film productions as per IRC Section 167.

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, 2011 and 2010, 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.

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.

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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, 2011, the company made purchases for \$4,166,475 (previous year \$1,775,741) from related parties. As of March 31, 2011, the due to related parties are \$22,408,289 (previous year \$14,267,153) and due from a related party is \$8,572 (previous year \$8,572).

Cash and Cash Equivalents

For the year ended March 31, 2011 and 2010, the bank balance are within the FDIC insured limit of \$250,000 per bank.

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, 2011 and March 31, 2010.

Corporate Guarantees:

- (a) As of March 31, 2011, 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 (previous year 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, 2011, 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 (previous year INR 1000.00 million).

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- (c) As of March 31, 2011, the company has also guaranteed the credit facilities by way of Term Loan secured by its parent company from Exim Bank, India, for an amount of US\$15.00 million (previous year US\$15.00 million).
- (d) As of March 31, 2011, the company has also guaranteed the credit facilities by way of Standby Letters of Credit / Bank Guarantee secured by its sister company from DBS Bank Ltd, for an amount of US\$10.00 million (previous year \$10.00 million), from Standard Chartered Bank , for an amount of \$15.00 million (previous year \$15.00 million), from Axis bank Ltd, for an amount of \$10.00 million (previous year \$10.00 million) and Bank of Baroda, for an amount of \$15.00 million (previous year Nil).

Operating Lease

The Company has rented office facilities in New Jersey with one year lease expiring in November 2011 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, 2011 AND MARCH 31, 2010

COST OF OPERATIONS		
	Year Ending 31-Mar-11	Year Ending 31-Mar-10
Inventories – Beginning	78,667	84,304
Purchases – Film rights & prints	5,294,473	15,552,744
Shipping & Freight & Logistics Cost	478,760	284,550
DVD Cost	112,106	89,145
Advertisement & Promotion Cost	1,031,731	338,032
	<u>6,995,737</u>	<u>16,348,775</u>
Less: Inventories – End	0	78,667
Cost of Operations	<u>\$6,995,737</u>	<u>\$16,270,108</u>

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

	Year Ending 31-Mar-11	Year Ending 31-Mar-10
Personnel	228,248	272,414
Welfare	9,339	22,795
Bank Charges	2,500	1,247
Box Office & Distribution support service	6,000	6,000
Dues & Subscription	6,777	5,914
Office Supplies	5,464	1,920
Professional Fee	26,473	30,395
Rent	47,905	44,412
Communications	6,875	7,194
Travel, Entertainment & Conferences	28,593	13,358
Other Expenses	940	5,357
Bad Debts W/Off	95,921	0
Depreciation	<u>2,456</u>	<u>6,932</u>
	<u>\$467,491</u>	<u>\$417,938</u>