ETC Networks Limited

Annual Report 2001-002

VALUE statement

TO MAINTAIN THE COMPANY'S PIONEERING STATUS AS A MULTIMEDIA CONTENT AND ACCESS PROVIDER, DRIVEN BY VIEWER RESPONSE AND SHAREHOLDER CONFIDENCE.

WE WILL CONTINUE TO AIM FOR GREATER GROWTH IN CREATIVITY AND PRODUCTIVITY BY ADDING VALUE TO EXISTING PROPERTIES, BOTH FOR OUR VIEWERS AND ADVERTISERS.

CONVERGENCE THROUGH THE FLOW OF GROUP SYNERGIES SHALL MAKE INNOVATION AN INEVITABLE PART OF THE ZEE BRAND.

CHAIRMAN'S STATEMENT

Dear Shareholders

AT ETC, WE ARE CONVINCED THAT COMPANIES WITH SIZE WILL DOMINATE THE MEDIA MARKETPLACE OF THE FUTURE AND ENHANCE VALUE FOR THEIR OWNERS. IN VIEW OF THIS, THE ETC MANAGEMENT OFFERED 51 PER CENT OF ITS COMPANY'S EQUITY TO ZEE TELEFILMS LIMITED, INDIA'S STRONGEST TELEVISION BROADCASTING COMPANY, IN APRIL 2002.

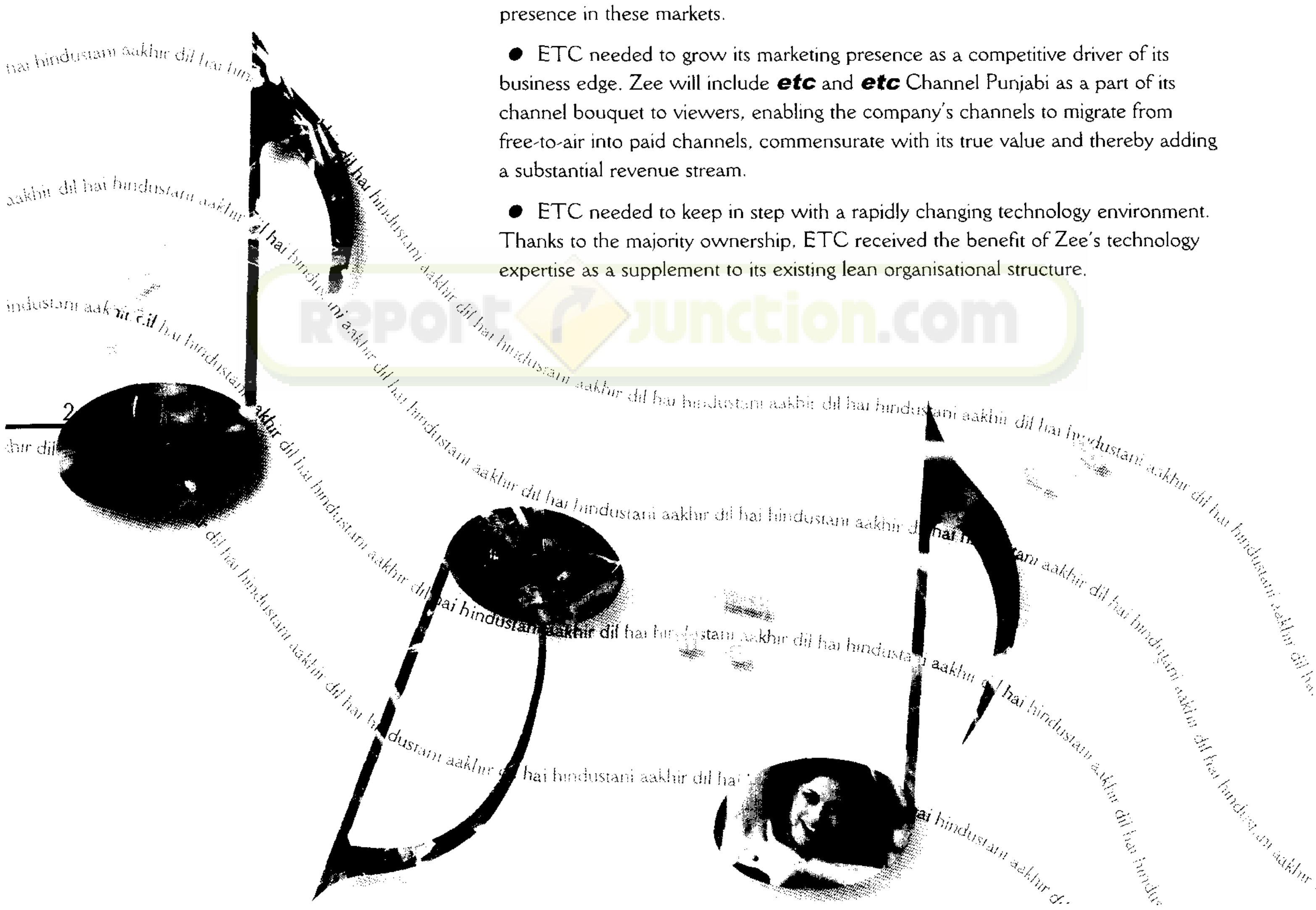
This landmark decision was taken to protect existing shareholder interests and enhance the value of their holdings on a sustainable basis across the long-term.

The decision was made on the following grounds:

- ETC needed to expand reach of its programmes to the attractive expatriate markets of USA, UK, Canada, Australia and New Zealand. The company's ***etc*** Channel Punjabi that telecasts live Gurbani from the Golden Temple, Amritsar, will be telecast to expats in the above-mentioned countries through Zee' strong presence in these markets.

- ETC needed to grow its marketing presence as a competitive driver of its business edge. Zee will include ***etc*** and ***etc*** Channel Punjabi as a part of its channel bouquet to viewers, enabling the company's channels to migrate from free-to-air into paid channels, commensurate with its true value and thereby adding a substantial revenue stream.

- ETC needed to keep in step with a rapidly changing technology environment. Thanks to the majority ownership, ETC received the benefit of Zee's technology expertise as a supplement to its existing lean organisational structure.



SAN[redacted]

CHAIRMAN [redacted]

BOARD OF DIRECT[redacted]

EXECUTIVE DIREC[redacted]

SENIOR MANAGEM[redacted]

COMPANY SECRET[redacted]

BANKERS [redacted]

SOLICITORS [redacted]

REGISTRAR & SHA[redacted]

REGISTERED OFFI[redacted]

WEBSITE [redacted]

At ETC, we believe that nothing works better than core competence.

ETC discontinued the broadcast of news and the marketing of regional programmes on the grounds that they diluted channel branding, distracted audience attention, depressed TRPs and did not add value. As a result, the expenditure that would have been required to sustain the creation of that content immediately dropped by Rs 14.5 cr. As a result of a stronger orientation, ETC protected and strengthened its position as India's preferred music channel. Over the months, the company enhanced its reach and reputation with the intelligent selection of content based on its deep understanding of viewer preferences.

Another development in 2001-02 was aggressive cost reduction. Even as the business environment became increasingly challenging with no major Hindi film hits, lower trailer revenues, lower ad-spends - we addressed cost management with a mission.

- Programming and telecast costs declined from 60 per cent of our revenues in 2000-01 to 40 per cent in 2001-02.
- Employee costs declined from Rs 3.86 cr in 2000-01 to Rs 2.92 cr in 2001-02.
- We rationalised our administrative expenses through various means.
- Due to a change in technology from analog to digital from August 2001, the company saved Rs 55 lacs per month

During the year, though revenues were under pressure, the company embarked on the decisive step to strengthen its studios, with the objective to reduce programming and telecast expenditure and strengthen the company's direct control over the variables that affected its business.

This was a decision of significant import: programming costs comprised the hire of pre and post-production equipment, payment to artists and satellite uplinking charges.

Besides, in 2001-02 the company made a substantial investment to graduate completely from analog to digital images. This prudent spending generated a three-fold benefit: a better quality of transmission, an increased technological compatibility with the entertainment content created by vendor agencies and a reduction in cost.

It has often happened that when an internal restructuring has been in progress, a company has yielded share of the marketplace. The reverse transpired at ETC. We strengthened our ongoing content objectives: we provided a better quality of music, we strengthened the local flavour and we customised our content for wholesome family viewing across our channels. As a result, both the channels strengthened their number one position.

We are optimistic about the company's prospects in 2002-03 for the following reasons: the company has expanded its content horizontally and vertically; and the coverage of new markets like UK for ***etc*** Channel Punjabi will translate into higher revenues; there is a strong possibility of ***etc*** Channel Punjabi migrating to a pay-channel; the cost reduction initiatives will now be reflected in a full year's working; the company's new programmes will strengthen viewership, TRPs and revenues. The improved results of the company during the first half of the current financial year are expected to translate into a momentum that should enhance value for shareholders in a sustainable manner across the foreseeable future.

Subhash Chandra
Chairman

DIRECTORS' report

Dear Shareholders

1. FINANCIAL HIGHLIGHTS

	2001-2002	2000-2001
Operating Profit (EBDITA)	556.43	496.16
Depreciation and Amortisation	60.18	170.15
Exceptional Items	1361.24	–
Provision for tax		
– Deferred	35.99	–
Net Profit / (Loss)	(1410.57)	243.58

2. DIVIDEND

In view of loss for the year the directors do not recommend dividend for the year.

3. FINANCE

The Company has procured Production and Post Production equipment of Rs 10 cr of which equipment worth Rs 6.36 cr were received during the year. The remaining were received after close of the year. These equipment have been part financed from a Corporate Loan of Rs 7.50 cr availed from Sicom Ltd.

These equipment will result in substantial cost savings by way of rentals and also reduce dependence of external sources.

4. CHANGE IN MANAGEMENT OF THE COMPANY

a. M/s Jagjit Singh Kohli, Yogesh Shah, Yogesh Radhakrishnan and their associates, the promoters of the Company and your company have signed an MoU dated 18th February 2002 whereby the promoters agreed to divest their equity stake in the Company in favour of Zee Telefilms Limited (ZTL) and your company agreed to issue and allot equity shares on preferential basis to ZTL for an aggregate amount of Rs 7 cr. Shareholders vide their resolution dated 28th March 2002 has approved issue of equity shares to ZTL on preferential basis. ZTL has acquired 48,78,547 equity shares of Rs 10 each from the promoters at a price of Rs 31.52 per share and your company has allotted to ZTL 22,20,812 equity shares of Rs 10 each at a price of Rs 31.52 per share.

b. Subsequent to the signing of the MoU, pursuant to Regulation 10 and 12 of the Securities & Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, ZTL made a Public Offer to the remaining shareholders of the Company to acquire up to 20 per cent of the expanded paid up capital of the Company from them. Nineteen hundred equity shares were tendered by the shareholders, which were acquired by ZTL.

c. In view of the above (a&b) ZTL now holds more than 51 per cent of paid up share capital of the Company and as such your Company has become its subsidiary.

d. Pursuant to the acquisition of majority stake in the Company by ZTL there has been change in the management of the Company. The Board of the Company has been reconstituted, with the induction of three ZTL nominee Directors and induction of an Independent Director. Their details have been furnished separately in this report as well as in the accompanying notice for the ensuing Annual General Meeting.

5. LAUNCH OF INTERNATIONAL OPERATIONS

The Company has launched its programmes in international markets including UK and USA, in association with it parent Company, ZTL. It is heartening to report that the Company's programmes have received an overwhelming response from the viewers in the international markets. Through this arrangement the Company is able to deliver live Gurbani from the Golden Temple to the Sikh *sangat*, based away from their homeland. During the current financial year, the Company will start broadcasting its programmes in other international markets, such as Europe, South Africa, Malaysia and Singapore, etc.

6. PARTICULARS OF EMPLOYEES

The Company did not have employees covered under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

7. STATUTORY DISCLOSURES ON CONSERVATION OF ENERGY, ETC.

Provisions of Section 217 (1) (e) regarding conservation of energy and technology absorption are not applicable. The particulars of foreign exchange earning and outgo for the year under review are annexed.

8. AUDITORS

M/s Deloitte, Haskins & Sells, Chartered Accountants and M/s Jogish Mehta & Co., Chartered Accountants hold office as auditors till the ensuing Annual General Meeting. They have expressed their unwillingness be reappointment as Auditors of the Company. The Board of Directors has recommended that M/s MGB & Co., Chartered Accountants be appointed as auditors of the Company.

9. COMMENTS IN AUDITORS' REPORT

The observations of the Auditors have been explained in the Notes to the Accounts and do not call for a separate explanation.

10. BOARD OF DIRECTORS

a. Mr. S Ravindran, Mr. Hetal Thakore and Mr. Sandeep Goyal have been appointed as Additional Directors on 2nd May 2002, 10th June 2002 and 25th June 2002, respectively.

b. Mr. Rajiv Garg, Mr. Vikas Gupta and Ms Hema Malini were appointed as Additional Directors on 28th August 2002.

c. Mr. Jagjit Singh Kohli, Mr. Yogesh Shah and Mr. Yogesh Radhakrishnan have resigned from the Board of your Company, pursuant to divestment of their equity stake in the Company, with effect from 28th August 2002. The Board of Directors has placed on record its deep appreciation for invaluable contributions and services rendered by them in setting up the channels and in managing the Company during their tenure as Directors.

d. Mr. S Ravindran and Mr. Hetal Thakore resigned as Directors on 28th August 2002. The Board has placed on record its appreciation for the valuable contributions made by them during their tenure as Directors of the Company.

e. Mr. Sandeep Goyal has been appointed as Managing Director of the Company with effect from 28th August 2002.

f. Mr. Sandeep Goyal, Mr. Rajiv Garg, Mr. Vikas Gupta and Ms Hema Malini hold office till the ensuing Annual General Meeting and offer themselves for reappointment.

11. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended 31st March 2002 -

- Applicable accounting standards have been followed along with proper explanations relating to material departures, if any;
- Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year;
- 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; and
- The accounts have been prepared on a going concern basis.

12. ACKNOWLEDGEMENTS

The Board places on record its sincere appreciation for valuable patronage and cooperation received from ad agencies, advertisers and the Company's bankers - ICICI Bank Ltd. Global Trust Bank Ltd., Sicom Ltd., Samata Sahakari Bank Ltd. and SGPC. The Directors also place on record its appreciation for commitment and support displayed by the employees.

For and on behalf of the Board

Mumbai
28th August 2002

Sandeep Goyal
Chairman of the Board

Annexure to the

DIRECTORS' report

I.

	2001-02	2000-01
Foreign Exchange Earnings	Rs - Nil	Rs - Nil
Foreign Exchange Outgo		
– Capital Goods	Rs 7.26 lacs	–
– Travel	Rs 12.54 lacs	Rs 26.25 lacs
– News Information		Rs 15.77 lacs
TOTAL	Rs 19.80 lacs	Rs 32.02 lacs

For and on behalf of the Board

Mumbai
28th August 2002

Sandeep Goyal
Chairman of the Board

discussion

REVENUE ANALYSIS

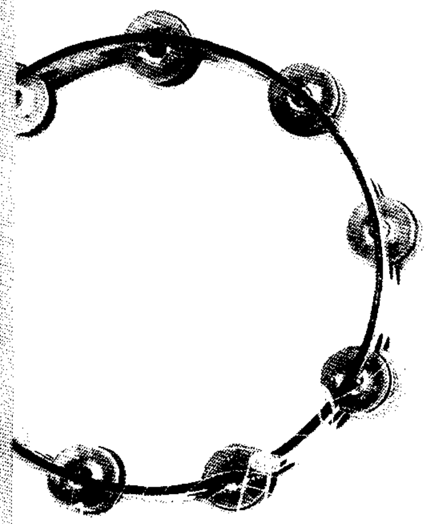
Total revenues declined from Rs 47.6 cr in 2000-01 to Rs 31.16 cr in 2001-02 following the termination of the news and marketing of South Indian programmes. The company continued to generate revenues from commercials and trailers.

CONSERVATIVE ACCOUNTING POLICIES

- The company follows a conservative accounting policy with regard to the recognition of revenues and cost. The company wrote off 60 per cent of the programming costs in the year of expenditure, while the rest will be written off equally across two years.
- The company took a conservative view of doubtful debts and their provision. The company was required to offer credit of over 120 days to advertisers. Due to the slowdown, some advertisers encountered problems in remitting their outstandings. With a view of prudent practice, the company wrote-off Rs 3.07 cr towards bad debts and made a provision of Rs 0.80 cr towards doubtful debts.

SURPLUS MANAGEMENT POLICY

The company did not generate any surplus in 2001-02. However, there was no operational loss in the company's working and due to this, there were some junctures during the course of the year when it enjoyed a short-term surplus. These surpluses were used to fund the company's working capital. The surplus generated in 2002-03 is expected to be used to repay debt and fund working capital.



INTEREST OUTFLOW INCREASED FROM RS 0.6 CR IN 2000-01 TO RS 1.24 CR IN 2001-02

CAPITAL STRUCTURE

The equity capital of the company remained unchanged at Rs 11.70 cr. However, Zee Telefilms Limited took up a stake in the company in April 2002 through the purchase of the promoters' stake, an Open Offer under SEBI Regulations and through the issue of preferential equity shares at Rs 31.52 each (the equity increased to Rs 13.92 cr as a result). The company did not have any preference shares on its books and nor were there warrants to be converted into equity as on 30 June, 2002.

CAPITAL EMPLOYED

The total capital employed by the company increased from Rs 44.75 cr in 2000-01 to Rs 51.52 cr in 2001-02 (excluding the debit balance of the profit and loss account), an increase of Rs 6.77 cr. The increase was primarily due to an increase in borrowings from Rs 3.13 cr in 2000-01 to Rs 12.44 cr in 2001-02. This was represented on the asset side by an increase in gross block. Working capital declined from Rs 18.87 cr in 2000-01 to Rs 12.92 cr in 2001-02.

The company's capital employed efficiency (represented by the turnover to capital employed ratio) declined from 1.06 in 2000-01 to 0.61 in 2001-02 following the discontinuation of the news and marketing of south Indian programmes on the company's channels, which lowered revenues by Rs 15.01 cr. Besides, the company's investment in its captive studios and an uplinking facility, while they were debited to the accounts, will translate into revenues only over the foreseeable future. The company expects this ratio to improve considerably in 2002-03.

LOAN PROFILE

The company borrowed for the long-term to fund asset expansion and funded working capital needs through short-term loans. The company's debt equity ratio stood at 0.50 on its contracted net worth at the close of 2001-02. This ratio is expected to improve following an increase in earnings in 2002-03 and the consequent repayment of debt.

Total loans increased from Rs 3.13 cr in 2000-01 to Rs 12.44 cr in 2001-02. The company borrowed Rs 7.5 cr from SICOM to set up a studio and purchase equipment for in-house programming. Despite the difficult industry environment, the company repaid a loan of Rs two cr to ICICI Bank. Besides, the company increased short-term working capital loans by Rs 3.63 cr. The company expects this to rationalise its short-term debt through increased cash flows and from proceeds of equity issue to Zee Telefilms Ltd.

INTEREST COST

Interest outflow increased from Rs 0.6 cr in 2000-01 to Rs 1.24 cr in 2001-02 due to the following reasons:

- Additional borrowings to fund two new studios.
- The purchase of equipment for in-house programming.
- To fund an increased credit cycle.

Interest as a percentage of turnover increased from 1.26 per cent in 2000-01 to 3.97 per cent in 2001-02 due to two reasons: a decline in revenue due to the discontinuation of news and marketing of south Indian programmes. Interest outflow is expected to decline following the proposed repayment of short-term loans in 2002-03 and the substitution of debt with accruals.

FIXED ASSETS AND DEPRECIATION

The company's gross block increased from Rs 25.6 cr in 2000-01 to Rs 29.94 cr in 2001-02. Telecast rights (films and songs) accounted for 36.54 per cent of the gross block as on 31 March, 2002. The company amortised Rs 3.63 cr in accordance with its amortisation policy.