

ADLABS

Annual Report 2005-2006

REPORT JUNCTION.COM

ADLABS

INDIA'S LEADING FILMED ENTERTAINMENT COMPANY

PROCESSING

Awarded the Prestigious Kodak Image Care Certification for Negative Processing
National Film Award Winner for Best Film Processing Laboratory for *Swades* and *Gimi*.

CONTENT

Co-produced some of the most Successful Films in FY 2006 like
Apaharan, Waqt, Bluffmaster and Taxi No. 9211.

INTERNATIONAL SALES & DISTRIBUTION

Ventured into International Sales & Distribution of Hindi Films by establishing
Distribution Offices in the UK and the US.
Pipeline for FY 2007 includes some of the most Prestigious Hindi Film Projects
like *Krrish, Jaanemann, Umrao Jaan, Baabul and Guru.*

EXHIBITION

Entertained over 3.6 million Patrons at Adlabs Cinemas in FY 2006
Added 3 New Cinema Sites along with an additional IMAX Screen in the NCR

BOARD OF DIRECTORS

Shri Manmohan Shetty
Chairman & Managing Director

Ms. Pooja Shetty
Wholetime Director

Shri Berjis Desai (w.e.f. October 7, 2005)
Director

Shri Gautam Doshi (w.e.f. October 7, 2005)
Director

Shri Karan Johar (w.e.f. October 7, 2005)
Director

Shri Shripal Morakhia (w.e.f. October 7, 2005)
Director

COMPANY SECRETARY

Ms. Kirti Desai

AUDITORS

BSR & Co. (a member of KPMG)
Chartered Accountants

BANKERS

HDFC Bank
Bank of Baroda

SUBSIDIARIES

Entertainment One (India) Limited

Reliance Unicom Limited

Gemini Exhibitors Limited

Mukta Adlabs Digital Exhibition Private Limited

REGISTERED OFFICE

Adlabs Films Limited
Film City Complex
Goregaon (East), Mumbai 400 065
Phone: (022) 2842 33 33/44 88
Fax: (022) 2842 22 11
Email: info@adlabsfilms.com
Website: www.adlabsfilms.com

REGISTRAR & TRANSFER AGENTS

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills
Compound, L.B.S Marg,
Bhandup, Mumbai 400 078
Phone: (022) 2596 3838
Fax: (022) 2594 6969

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FINANCIAL HIGHLIGHTS

BRIEFS ON INCOME

(Rs. in million)

For Year Ending	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01
Sales	1,034.58	858.56	753.43	740.72	569.12	463.93
other Income	97.47	16.99	35.63	39.82	40.74	27.41
PBDIT	484.00	393.24	336.37	321.60	208.38	180.80
PBDT	475.13	377.41	322.90	311.13	198.64	178.48
PBT	386.36	322.86	278.08	268.62	160.78	169.64
Tax	123.30	116.17	101.66	102.09	57.40	46.22
Profit after tax(PAT)	263.06	206.69	176.42	166.53	103.38	123.41
Dividend-Equity	45%	40%	50%	40%	25%	21%
No. of Equity Shares	39,800,750	21,500,750	21,500,750	21,500,750	21,500,750	21,500,750
EPS (Basic)	8.33	9.61	8.21	7.75	4.81	5.74
EPS (Diluted)	8.02	9.61	8.21	7.75	4.81	5.74

BREIFS ON SOURCES AND APPLICATION OF FUND

As on	31-Mar-06	31-Mar-05	31-Mar-04	31-Mar-03	31-Mar-02	31-Mar-01
Assets						
Gross Block	1,079.88	853.49	800.62	719.09	698.62	530.99
Net Block	781.30	639.03	634.31	597.60	619.58	489.47
Capital WIP	2,279.90	61.81	11.33	20.06	9.31	32.65
Investments	4,424.07	130.22	133.41	0.50	-	-
Inventory	13.03	9.35	6.12	7.17	8.31	13.14
Receivables	447.57	362.58	320.42	284.69	234.36	138.45
Other Current Assets	1,849.73	831.53	564.12	552.83	463.49	540.97
Misc. Expenditure	-	0.59	11.53	21.63	32.40	42.74
Total	9,795.61	2,035.11	1,681.24	1,484.48	1,367.45	1,257.42
Liabilities						
Equity Share Capital	199.00	107.50	107.50	107.50	107.50	107.50
Reserves	3,186.78	1,065.53	940.93	825.29	707.27	646.23
Total Debt	4,651.05	241.46	143.05	116.09	150.50	74.08
Deferred Tax Liability	70.41	78.28	68.57	52.37	35.37	-
Creditors and Acceptances	187.96	182.90	156.41	164.72	219.43	257.17
Other current liab/prov.	1,500.40	359.44	264.78	218.51	147.38	172.44
Balance Sheet Total(BT)	9,795.61	2,035.11	1,681.24	1,484.48	1,367.45	1,257.42

NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of Adlabs Films Limited will be held on Saturday, the July 29, 2006 at 11.00 a.m at Rangsharda Natyamandir, K.C. Marg, Bandra Reclamation, Bandra (West), Mumbai 400050 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the audited Balance Sheet as at March 31, 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Ms. Pooja Shetty, who retires by rotation and being eligible offers herself for re-appointment.
4. To appoint a Director in place of Shri Berjis Desai, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint M/s. BSR & Co., Chartered Accountants as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration to be decided by the Board of Directors.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Karan Johar, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

7. To consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Gautam Doshi, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

8. To consider and, if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Shripal Morakhia, who was appointed as an Additional Director with effect from October 7, 2005 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and Article 132 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting, and in respect of whom a Notice has been received from a Member in writing, under Section 257 of the said Act, proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

9. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 31 and all other applicable provisions of the Companies Act, 1956, the Articles of Association of the Company be and is hereby altered by inserting the following new Article No. 5a be inserted after the existing Article No.5.

'5a. The Company may by special resolution reduce or adjust in any manner, subject to any authorizations and approvals required by Law-

- (a) its Share Capital
- (b) any Capital Redemption Reserve Account
- (c) any Securities Premium Account

Notwithstanding the above any amounts standing to the credit of the Securities Premium Account may also be utilized other than for capitalization, for any other purposes as in accordance with the provision of law'.

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds matters and things, as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard."

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10. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Sections 78, 100 to 103 and all other applicable provisions, if any, of the Companies Act, 1956, and Article 5a of the Articles of Association, the approval of the Company be and is hereby accorded for the utilization of the balance standing in the Securities Premium Account of the Company in the following manner:

- (a) To adjust the excess of Book Value of the assets of the Radio Business of the Company transferred to Reliance Unicom Limited ("RUL") over the Book Value of liabilities transferred, as reduced by an amount of Rs 100 Crores which shall be recorded as receivable from RUL, and/or
- (b) To adjust the excess, if any, of Book Value of liabilities of Entertainment One (India) Limited transferred over the Fair Value of assets taken over, and/or
- (c) To adjust the excess, if any, of Book Value of liabilities of the Digital Cinema Business of Mukta Adlabs Digital Exhibition Private Limited over the Book Value of assets taken over.

"RESOLVED FURTHER THAT the utilization, as aforesaid, shall be effected as an integral part of the composite scheme of Amalgamation and Arrangement between the Company and Entertainment One (India) Limited and Reliance Unicom Limited and Mukta Adlabs Digital Exhibition Private Limited and their respective shareholders and creditors, which scheme shall be subject to the approval of the Honorable High Court of Judicature at Bombay and/or any other authority as may be applicable.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds matters and things, as it may, in its absolute discretion, deem necessary, expedient or proper and to settle any questions, difficulties or doubts that may arise in this regard at any stage without requiring the Board to secure any further consent or approval of the Members of the Company to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this resolution."

Registered Office
Filmcity Complex,
Goregaon (East),
Mumbai 400 065

By Order of the Board

Kirti Desai
Company Secretary

Mumbai,
April 23, 2006

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The instrument appointing proxy to be effective should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the meeting, to be effective.
3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the special business to be transacted at the Meeting is annexed here to.
4. All documents referred in the accompanying notice are open for inspection at the Registered Office of the Company on all the working days, except Saturday between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
5. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, July 25, 2006 to Friday, July 28, 2006 (both days inclusive).
6. The dividend, on equity shares, as recommended by the Board of Directors, if declared at the meeting, will be paid on or after July 29, 2006 to those Members whose names appear on the Company's Register of Members after giving effect to all valid share transfers in physical form lodged with the Company on or before Friday, July 28, 2006 or in respect of shares held in electronic form to those Members whose names appear in the Statement of Beneficial Ownership furnished by the Depositories for this purpose.
7. SEBI has made it mandatory to use Electronic Clearing Services (ECS) facility wherever possible, for payment of dividend. In order to enable the Company to remit dividend through ECS, members are requested to provide details of bank account indicating the name of the bank, branch, account number and 9 digit MICR code (as appearing on the cheque). It is advisable to attach a photocopy of the cheque leaf / cancelled cheque leaf. The said information has to be submitted on or before July 20, 2006 to Company's Registrar and Share Transfer Agents Intime Spectrum Registry Limited if the shares are held in physical mode and to the concerned Depository Participant (DP), if the same are held in demat mode. Payment through ECS shall be subject to availability of ECS Centres and timely furnishing of complete and correct information by Members.

8. Members are requested to inform any change in their addresses immediately so as to enable the Company or its Registrar and Share Transfer Agents to send communication at their correct addresses.
9. Members are requested to direct all correspondence relating to shares to the Company's Registrar and Share Transfer Agents, Intime Spectrum Registry Limited at C-13, Pannalal Silk Mills Compound, L.B.S Marg, Bhandup, Mumbai 400 078.
10. Members / Proxies attending the meeting are requested to complete the enclosed attendance slip and handover the same at the entrance of the Meeting Hall. Members holding shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of members attending the meeting.
11. Members/proxies should bring along with them the Annual Report copy at the time of attending the Meeting.
12. Queries on accounts and operations of the Company, if any, may please be sent to the Company at least seven days in advance so that required information may be made available at the meeting.
13. Re-appointment / Appointment of Directors: At the ensuing Annual General Meeting, Ms. Pooja Shetty and Shri Berjis Desai, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment. Shri Karan Johar, Shri Gautam Doshi and Shri Shripal Morakhia, additional directors hold office upto this Annual General Meeting and are proposed to be appointed as Directors under Section 257 of the Companies Act, 1956. The information or details pertaining to these Directors, to be provided in terms of Clause 49 of the Listing Agreement is furnished in the Statement on the Corporate Governance published elsewhere in this Annual Report.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 setting out all the material facts relating to special business:

Item Nos. 6, 7 and 8

Shri Karan Johar, Shri Gautam Doshi and Shri Shripal Morakhia were appointed as Additional Directors of the Company with effect from October 7, 2005 in accordance with the provisions of Section 260 of the Companies Act, 1956, and Article 132 of the Articles of Association of the Company. Pursuant to Section 260 of the Companies Act, 1956, the above Directors hold office upto the date of ensuing Annual General Meeting. The Company has received notice(s) from a member of the Company under Section 257 of the Companies Act, 1956, proposing their respective candidature for the office of the Director.

Keeping in view the experience and qualification of the aforesaid persons, your Directors considered it to be in the interest of the Company, if they are appointed as Directors of the Company, liable to retire by rotation as per the provisions of the Companies Act, 1956.

The Directors recommend the Resolution to the Members for their acceptance.

The aforesaid Directors, may be deemed to be concerned or interested in the resolution relating to their respective appointments.

None of the other Directors of the Company in any way are interested.

Item Nos. 9 and 10

The Board of Directors of the Company at their meeting concluded on 23 April 2006, have subject to approval of the Honourable High Court at Mumbai, approved the composite scheme of Amalgamation and Arrangement between the Company ("Adlabs" or "the Company") and Entertainment One (India) Limited ("EOIL") and Reliance Unicom Limited ("RUL") and Mukta Adlabs Digital Exhibition Private Limited ("MADEL") and their respective shareholders and creditors ("the Scheme") which *inter alia* provides for:-

- Demerger of the "Radio Business" of Adlabs on a going concern basis into RUL with effect from April 1, 2006. In consideration for the demerger, RUL will issue 2 (Two) equity shares of Rs 5 each fully paid-up for every 1 (One) equity share of Rs 5 each held in Adlabs.
- Distribution of RUL Equity Shares received by Reliance Land Private Limited (RLPL) pursuant to the demerger of Radio Business of Adlabs into RUL to shareholders of Reliance Capital Limited (RCL) in the ratio of 1 (One) Equity Share of Rs 5 each fully paid-up of RUL for every 6 (Six) Equity Shares of Rs 10 each fully paid-up held by the shareholders of RCL and 1 (One) Equity Share of Rs 5 each fully paid-up of RUL for every 6 (Six) RCL warrants

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- Amalgamation of EOIL, a wholly owned subsidiary of Adlabs with Adlabs with effect from April 1, 2005.
- Demerger of "Digital Cinema Business" of MADEL, a wholly owned subsidiary of Adlabs, on a going concern basis into Adlabs with effect from April 1, 2005.

Clauses 6.1.2, 6.1.6 and 6.1.10 of the Scheme provide for the utilization of the Securities Premium Account of the Company in the following manner:

- To adjust the excess of Book Value of the assets of the Radio Business of the Company transferred to RUL over the Book Value of liabilities transferred, as reduced by an amount of Rs 100 Crores which shall be recorded as receivable from RUL,
- To adjust the excess, if any, of Book Value of liabilities of EOIL transferred over the Fair Value of assets taken over, and
- To adjust the excess, if any, of Book Value of liabilities of the Digital Cinema Business of MADEL over the Book Value of assets taken over

The utilization, as aforesaid, shall be effected as an integral part of the Composite Scheme of Amalgamation and Arrangement between the Company and Entertainment One (India) Limited and Reliance Unicom Limited and Mukta Adlabs Digital Exhibition Private Limited and their Respective Shareholders and Creditors.

Section 78(1) of the Companies Act, 1956, provides that the utilization of the Securities Premium Account for purposes other than those specified in Section 78(2) shall require compliance with the provisions as all applicable for capital reduction, i.e. under Sections 100-103 of the Companies Act, 1956. Reduction of Capital is permitted by Section 100 inter alia on the condition that reduction is authorized by the Articles of Association of the Company. Presently, the Articles of Association of the Company do not deal with the subject of reduction of capital. It is therefore, necessary to amend the Articles of Association of the Company to inter alia authorize reduction of capital.

Accordingly, Members' approval is sought under Section 31 of the Companies Act, 1956 by way of special resolution to alter the Articles of Association of the Company as proposed in Item no. 9 of the Notice. None of the Directors of the Company is interested in the Resolution, except as shareholders in general.

Further the proposed utilization of Securities Premium Account of the Company as aforesaid would be deemed to be a capital reduction, which requires the approval of the shareholders of a company by way of a special resolution in terms of Section 78 read with Section 100 of the Companies Act, 1956. Accordingly, approval is sought for capital reduction as proposed in Item No.10 of the Notice.

The capital reduction will be carried out as part of the Scheme and the Scheme shall be subject to sanction of the Honorable High Court of Judicature at Bombay and/or approval of such other regulatory authority as may be required according to the laws in force.

The detailed terms and other relevant features of the Scheme have been appropriately described in the Explanatory Statement under Section 393 of the Companies Act, 1956, which has been enclosed along with the notice convening the meeting of the Equity Shareholders pursuant to the Order of the High Court of Judicature at Bombay on the June 23, 2006.

The Directors recommend the Resolution to the Members for their acceptance.

None of the Directors of the Company are interested or concerned in the said resolution, except as shareholders in general.

Registered Office
Filmcity Complex,
Goregaon (East),
Mumbai 400 065

By Order of the Board

Kirti Desai
Company Secretary

Mumbai,
April 23, 2006

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's been an exciting and eventful year for all of us at Adlabs. In my last communication to you I expressed our keen interest in tapping potent areas of the entertainment business and I am happy to inform you that we have exceeded our expectations.

The Film processing business has been satisfactory with addition of facilities at Chennai and shortly at Kolkata. The Company is on its way to transform itself from a leading 'processing lab' to a larger 'services' Company. This would include the entire 'production services' space encompassing processing, digital post-production, equipment rentals and studios.

We have signed contracts with some of the leading directors like Ramesh Sippy, Ram Gopal Varma, Prakash Jha, Vipul Shah to make multiple films on a regular basis. The effort has been to build relations with some of the top producers and directors of the country so that they would work with us exclusively and continuously give us a flow of films in the coming years. While focusing on international film business, we have signed co-production deal with well known Hollywood film producer Ashok Amritraj's Hyde Park Entertainment to produce multiple films on a regular basis.

Toward distribution of films, the Company has acquired the overseas distribution rights of prestigious blockbusters and this division is expected to add substantial revenue to the Company in the coming year. The Company has opened its own distribution office in the US and the UK with the film 'KRRISH' which has opened with stupendous box office collections.

The multiplex business currently spreads across 7 cities, 40 screens in 10 properties and is expected to grow rapidly to 80 screens in 20 properties. This remains a strong focus area of the Company and is likely to see significant expansion of capacity including digital theatre systems in the coming years.

We have recently forayed in to the animation sector for developing good quality animation content by setting up a division to develop this business for the Company. We are happy to associate with Superstar Rajnikanth as the lead for our first animation venture.

New FM Radio Licenses were being granted by the Government of India. The Company was granted 45 FM Radio Operation Licenses in various parts of the country including all metros. The operations are expected to commence this year.

As you are aware, it is proposed to de-merge Radio business to an independent Company to have the increased value to the shareholders.

As part of the Reliance - Anil Dhirubhai Ambani Group (Reliance - ADA Group), Adlabs will always strive for excellence, and we deeply value your support.

Thank you,

Mumbai, June 26, 2006

Manmohan Shetty
Chairman & Managing Director

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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE

The Indian entertainment industry exhibits a confluence of creativity and commerce. The creativity, in the form of content continues to be of critical importance and the same when combined with entrepreneurial spirit and professional management has the potential to redefine industry standards. All these have resulted in the emerging trend of corporatisation, film financing, content development, operational control thereby creating an entertainment economy that is mature, transparent and balanced.

On account of liberalisation of the foreign investment guidelines, favourable demographics, the entertainment industry has shown a higher growth than that of the economy. Consumer spending has jumped due to increase in the disposable incomes over the years. Foreign investment has been drawn into the industry as has been evident by an array of strategic stakes acquired by overseas players in different segments of the entertainment business.

Barriers to entry are diminishing. Emerging digital platforms for distribution of film, television, music and radio will enable technology savvy and integrated companies to unlock new revenue streams. The exhibition industry is undergoing a radical change following the advent of multiplexes and digital cinema. As film viewing becomes a holistic entertainment experience, the multiplexes are now being built in combination with shopping complexes, gaming zones and food courts. Your Company is encashing on the boom in this emerging environment. There exists an opportunity to cater to the budget audiences by developing low-cost cinemas and providing a decent movie going experience. Your company appreciates the need to enter this space and is implementing a plan to expand its audiences and thereby increase the box office revenues.

Going forward, the large media and entertainment conglomerates are expected to bring in professional management and global best practices. Following dynamic improvements in technology on offer, convergence will be the critical aspect in the growth of the Indian entertainment industry. On account of proliferation of mass media, consumers are getting more aware and specific of their requirements; the industry is gearing to cater to the various audiences.

Your Company will not only be concentrating on its businesses of processing and distribution but shall also endeavor to enter into new and promising segments such as distribution, television, production of animation and provide a one-stop shop that can cater and provide solutions to all kinds of entertainment demands of the market.

COMPANY'S FINANCIAL PERFORMANCE

During 2005-06, the highlights of the financial performance of Adlabs Films Limited are as follows

(Rs in lakh)			
Income Stream	2003-04	2004-05	2005-06
Film processing activity and traded goods	5,719.76	6,525.09	6573.69
Theatre Operations	1,814.49	1,950.99	2527.95
Film Distribution	–	–	531.19
Film Production	–	109.51	712.97
Other Income	356.30	169.93	974.67
Total income	7,890.55	8,755.52	11,320.47

Segment wise Analysis

1. Film Processing:

Adlabs enjoys a leadership position in film processing business and has maintained its revenues on a year on year basis. Income from processing amounted to Rs 4,314 lakh, while income from Traded Goods amounted to Rs 2,259 lakh. In line with the geographical expansion plans for the processing business, the Company has commenced its operations in Chennai and a facility in Kolkata is expected to be operationalised shortly. The Company has been upgrading its facilities on an ongoing basis to provide quality services to its customers.

2. Exhibition Business

The Exhibition business of the company which is the thrust area for expansion has posted good growth with revenue growing to Rs 2,528 lakh, up by 30% as compared to the previous year. The Company during the fiscal year was operating 31 screens in 8 properties. EBIDTA margins continue to be the highest in the industry despite low fourth quarter occupancies on account of few big banner releases.