

ANNUAL REPORT

Volume-24 ■ ZEE TELEFILMS LIMITED ■ 2005-06

Zee TV races ahead of competition

Saat Phere, Kasamh Se &
Sa Re Ga Ma Pa consistently
top GEC charts

★★★

Ghar ki Lakshmi Betiyan -

Betiyan beton se badhkar

★★★

Shabaash India!

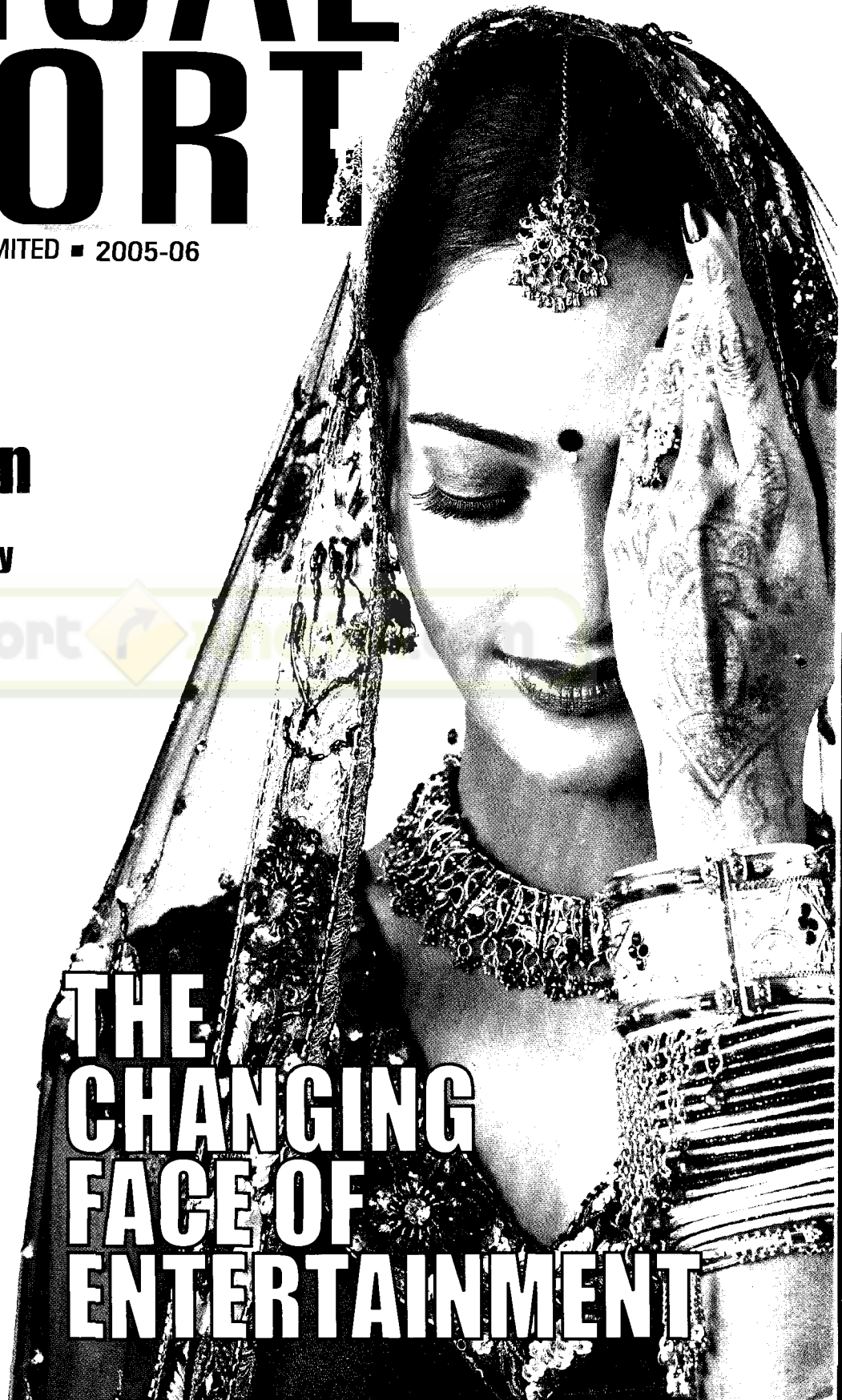
where nothing is impossible

★★★

Hero Honda Sa Re Ga Ma Pa L'IL CHAMPS

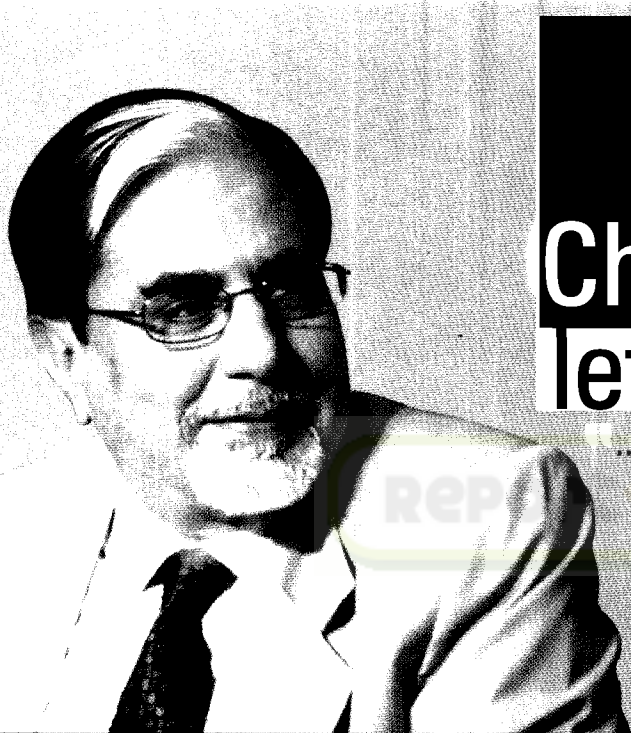
Apki choice, India ki voice

THE CHANGING FACE OF ENTERTAINMENT



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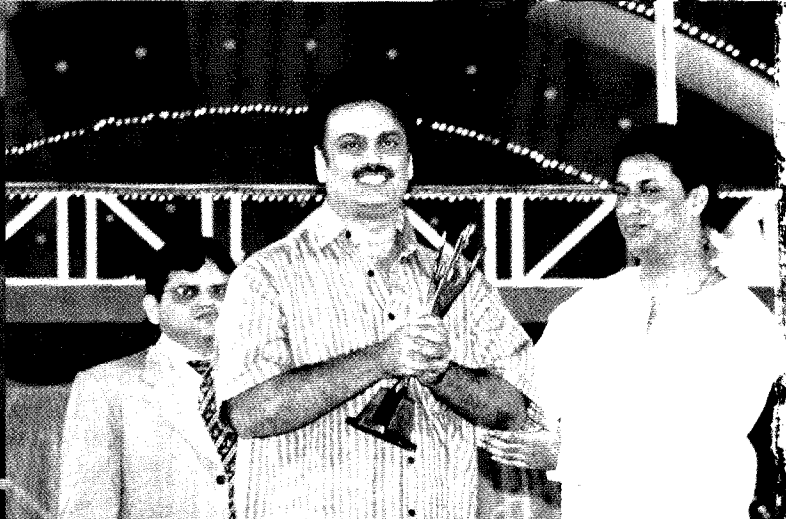


04 Chairman's letter

... People come first and strategy comes second.



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Subhash Chandra
Chairman
Laxmi Narain Goel
Whole Time Director
Punit Goenka
Whole Time Director
Punit Goenka
Director

Independent Director

Director

Independent Director

Independent Director

Independent Director

Independent Director

Company Secretary

Auditors

135, Continental Building,
Dr. Annie Besant Road, Worli,
Mumbai - 400 018, INDIA.

BNP Paribas
ICICI Bank Limited
IDBI Bank
ING Vysa Bank
Jammu & Kashmir Bank
Standard Chartered Bank
UTI Bank Limited

CEO

Southern Channels

Technology

Education

Zee Turner

Corporate Brand Development

Zee Cinema and PAC

International Operations

Zee Sports

Finance and Operations

Zee Music

Distribution

Advt. Sales

Zee Café, Zee Studio and Zee Trendz

Zee Marathi, Zee Bangla and Zee Gujarati

ETC Punjab

Corporate

Human Resources

Finance

Marketing

Middle East Operations



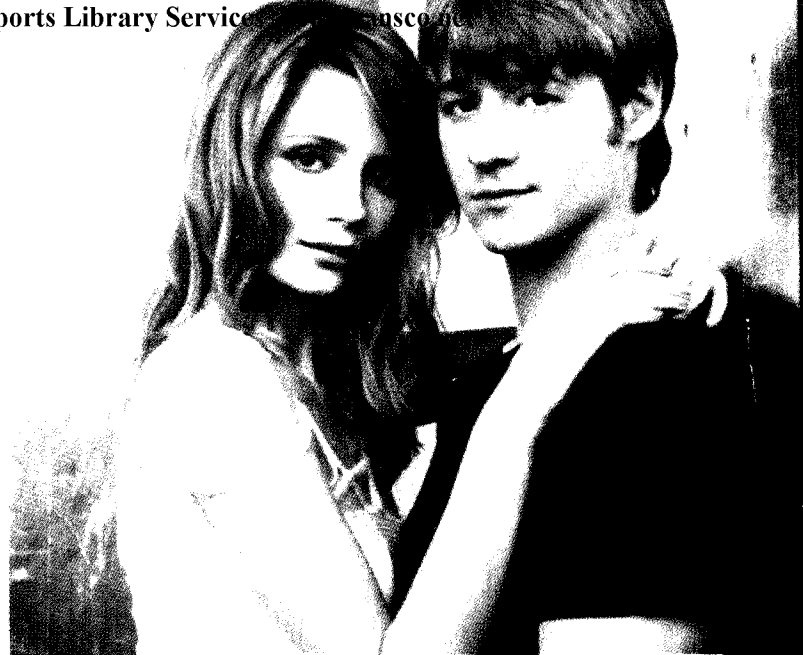
Saat phere

Saloni ka safar

★ OUR VALUES ★

Customer Focus: Our company's strategies are driven by the needs of the customer. Our success can be measured by the satisfaction achieved by our customers. **Excellence:** We accord a high premium to maintaining superlative standards throughout our company. We encourage our employees to come up with smarter ideas within the fastest possible time. **Creativity:** The key to our value system is innovation and originality. We recognize and have a high regard for individual expression and creative freedom in our quest to provide customer satisfaction. **Integrity:** We observe strict ethical standards through editorial independence and creative expression in order to earn the trust of our viewers and subscribers. **Growth Driven:** We are committed to delivering consistent revenue and cash flow growth in order to provide our shareholders a good return. Our objective is to grow our people, markets and businesses around the world.





★ MISSION ★

To be the leading round-the-clock airtime properties provider, delighting the viewers on one hand and providing value to the advertisers for their time and money on the other.

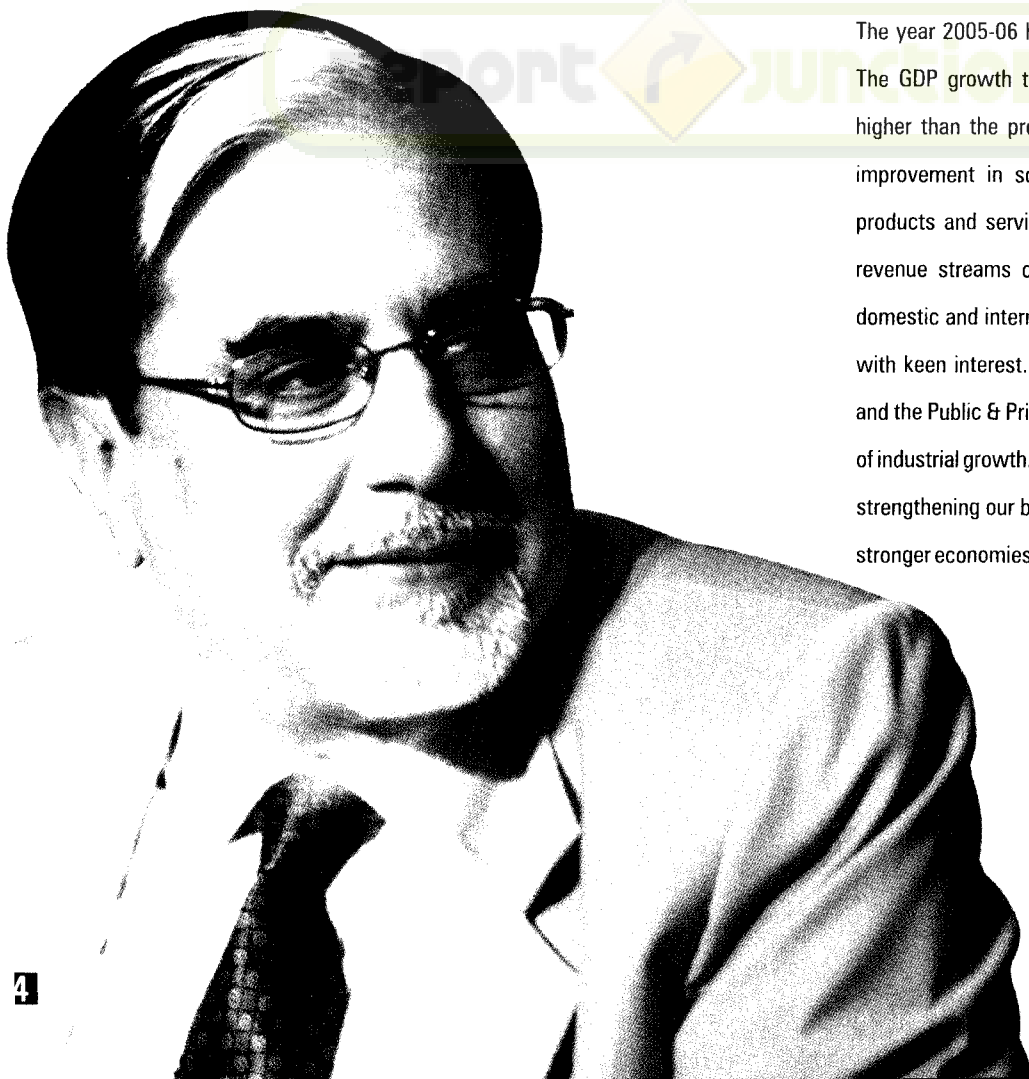
To establish the Company as the creator of entertainment and infotainment products and services to feast the viewers and the advertisers. Through these services, we intend to become an integral part of the global market. As a corporation, we will be profitable, productive, creative, trendsetting and financially sound with care and concern for all stakeholders.



The future is Now!

Dear Shareholders,

The year 2005-06 has been encouraging for the Indian economy. The GDP growth touched a figure of over 8%, the same being higher than the previous year. Optimism continued with further improvement in social indicators. Increase in the demand for products and services during the year resulted in growth in the revenue streams of enterprises. The investor community, both domestic and international, continued to watch Indian businesses with keen interest. Proactive and joint efforts of the Government and the Public & Private sectors have yielded good results in terms of industrial growth. Overall, India added another good year towards strengthening our belief that the country is emerging as one of the stronger economies of the world.





Media & Entertainment industry – A digitalization era is setting in

The Rs. 350 billion (estimated) Indian Media and Entertainment Industry was no exception with an estimated 15% growth in revenues in 2005-06 over the previous year. A large part of this growth came from the growth in the television industry characterized by increased penetration and growth in advertisement and subscription revenues. The consumers' desire for customized content, value added features like interactivity and consumption of content anywhere, anytime, has laid a foundation for digitalization in the industry and also the emergence of newer delivery platforms like mobile phones, the Internet etc. Customized content viewing has given way to emerging genres and also

continue to be instrumental in bringing transparency and protecting a fair share of revenues for all players in the industry and also in accelerating the spread of digitalization. India's advertisement-spend as percentage of the GDP is comparatively low. Even the Cable and Satellite penetration, especially in the lower socio-economic classes in India, is estimated to be low. All of these factors create a huge scope for the industry to capitalize on multiple revenue streams resulting in significant growth over time.

Corporate restructuring

Your company initiated restructuring efforts to create four separate businesses: Content Creation and Broadcast, News Broadcast

“ Customized content viewing has given way to emerging genres and also increased realizations from both advertisements as well as subscriptions. ”

increased realizations from both advertisements as well as subscriptions. The growth in Direct-to-Home business and the entry of new players in segments like Digital Cable and IPTV speak of the Digital era setting in. Significant investments in technology and superior content have been and are being made by players in order to gain an extra edge over competition. Revenues from international markets also saw an upsurge with higher demand for Indian content not only from persons of Indian origin but also foreigners for dubbed Indian content. Ongoing efforts in the area of addressability through Conditional Access Systems (CAS) will

(including regional language channels), Cable and Direct to Home (DTH). According to the scheme(s) of arrangements, your company shall get demerged into four different businesses and as on the record date(s), the shareholders shall be offered shares in three businesses namely news, cable and DTH at a ratio of the number of shares held in the company. Subsequently, the three companies resulting from the demerger process shall get listed in the stock exchanges where the company's shares are currently listed. This restructuring was necessary keeping in view the regulatory requirements, focus required to run each of the





“ These measures of restructuring would result in streamlining operations and better exploitation of opportunities in each area to build long term shareholder value. ”

businesses more effectively, varying complexities and investor expectations and the preparation required to capitalize on the technological advancement of the digital age. We feel confident that these measures of restructuring would result in streamlining operations and better exploitation of opportunities in each area to build long term shareholder value. It would also clear the ground for acquisitions and strategic or financial partnerships in the demerged businesses, besides unlocking shareholder value.

Restructuring of news business

In compliance with the News Up-linking Guidelines of Government of India, w.e.f. October 2005, news gathering activities of the company were transferred with your approval to Zee News Limited (ZNL) while down-linking and commercial exploitation of all news-bearing channels was retained under the company. Despite a compliant corporate structure for news bearing channels (particularly the regional channels), it was felt important to bridge the divide and bring all the operational activities together to create strategic focus, remove tax inefficiencies and unlock shareholder value.

As per the scheme of arrangement approved by the honorable High Court of Bombay, the news-related business (Zee News, Zee Business, Zee Bangla, Zee Punjabi, Zee Marathi, Zee Telegu and Zee Kannada) got demerged into Zee News Limited (ZNL) and the shareholders of the company would receive proportionate shares in ZNL.

Restructuring of cable business

Over the years, the business models of our content and distribution businesses including cable operations have diverged considerably. Despite large and well-positioned investments, cable assets have been under-utilized and have been marginal contributors to the company's financial performance. On the other hand, there have been vast technological advancements in Cable that can be optimally exploited from our well-distributed asset base. To properly address the emerging business opportunities in digitization of cable and convergence, there also are large funding requirements. The regulatory requirements of cable distribution are also very different from broadcasting. Combined with the fact that the competitive environment of the distribution business is



also different, it was felt that an invigorated corporate governance set up is essential to aggressively address emerging opportunities. As per the scheme of arrangement approved, the cable business of Siticable, a 100% subsidiary of the company and the cable related business of the company got demerged into Wire and Wireless (India) Limited (WWIL) - a new company incorporated for the purpose. The shareholders of the company would receive proportionate shares in WWIL.

Restructuring of Direct-to-Home business

Direct consumer business is marked by the division of activities between the Direct -to-Home (DTH) license holder ASC Enterprises Limited (ASCEL) and the subsidiaries of Siticable. It led to a lack of

Entertainment content creation and broadcast business

The General Entertainment genre accounts for about 40% of the television advertisement revenues. The viewership share of Zee TV, the main general entertainment channel, grew from 16% to 22%. Even in the prime time slot, Zee TV is the only channel that has grown by 21% against competition. This has been largely on account of exclusive content launched on the channel during 2005-06. A favorable effect was also felt in the advertisement rates going up giving a boost to the revenues. Although there was a small dip in the cinema genre, Zee Cinema grew by 7% to a channel share of 37% retaining the No. 1 position in the segment. Sports advertising accounts for about 10% of the advertisement revenue

“ The company made significant investments in new businesses like Zee Sports, Zee Telugu and Zee Smile... ”

clarity in the structure, inefficiencies in taxes and diffused strategic focus. Accordingly, it was felt appropriate that the direct consumer related business of the company shall be demerged into ASCEL with the shareholders of the company receiving proportionate shares in ASCEL. The scheme of arrangement is pending for approval by the honorable High Courts of Bombay and Delhi.

Review of performance

During 2005-06, the consolidated revenue of the company grew by 12% to Rs. 16,544 million. The advertisement revenue grew by 15% to Rs. 6,566 million while subscription revenue grew by 7% to Rs. 7,174 million. Over the last year, the company's operating profit decreased by 31% to Rs. 3,334 million and Profit after Tax decreased by 29% to Rs. 2,260 million, although the operating margins for the existing businesses were maintained. This was mainly because the company made significant investments in new businesses like Zee Sports, Zee Telugu and Zee Smile and others that have been fully expensed within the 2005-06 financials. We believe these investments will pay off several times over in the years to come.

on television. Zee Sports consolidated its position on exclusive properties on cricket and football during the year 2005-06. Zee Sports won the BCCI cricket rights for 25 non-ICC matches that include 15 matches between India and Pakistan. The channel also tied up with the Sports Ministry, Government of India, as media partners as an initiative towards the development of Indian football to bring it to a world-class level. The sports properties make a valuable pay-per-view proposition and we believe the content of Zee Sports will generate substantial revenues in the years to come with the emergence of new delivery platforms.

News business

The news genre has rapidly grown in the country with an increased viewership share. With the increasing penetration of cable and satellite television in the rural areas, regional viewership is also growing. There is a strong demand for regional content in the international markets also. The news market together with the regional and local cable channels, comprises of an estimated 40% of the overall viewership share. The Zee News business comprising of Zee News, Zee Business and regional channels like



**Zee News,
in spite of being
the only pay
channel in its
genre, maintained
its position
within top 3
news channels
in the country.**



Zee Marathi, Bangla and Gujarati have performed well in 2005-06. Your company launched Zee Telegu, 24 Ghante and Zee Kannada thereby consolidating a strong foothold in the regional markets, especially the south. Zee News, in spite of being the only pay channel in its genre, maintained its position among the top 3 news channels in the country. The viewership shares of Zee Business, Zee Bangla, Zee Marathi and Zee Gujarati improved over the last year's while ETC Punjabi and Zee Punjabi together retained the No. 1 position with over 60% share. The company has plans to launch itself in the Tamil and Malayalam markets and also launch dedicated regional news channels in each of these regions.

Direct-to-Home business

DTH business was launched in May 2005. Since then subscriptions have grown at an average of over 5% month on month with the total subscriber base touching the one million mark in June 2006. Today, the business is adding about 30,000 subscriptions every week on a net basis. The business is committed to provide superior service levels and value for money propositions to customers.

Cable business

The television landscape is shifting to digital and towards addressable households. There is a push from the Government and a pull from consumers for better quality signals driving the implementation of Conditional Access Systems (CAS) in cities. With the advent of competition from DTH promising better quality viewing and interactivity features, the cable business will have to reshape to match customer expectations. These factors will also facilitate transparency in the system. Our cable business being brought under WWIL as part of the restructuring is geared up to ride on the necessary technological advancements and offer quality features to customers. The company has plans to launch digital cable and triple play services with two-way connectivity enabling voice, video and data services through a single set top box. This would include delivery of digital and analog channels, video on demand, high speed broadband internet, gaming content among others. We are excited about the prospects of this distribution segment.