



Limited Review Report on Proforma Combined Financial Statements

To the Board of Directors of
Cinemax India Limited
(Formerly known as Cinemax Cinemas (India) Private Limited)

1. We have reviewed the accompanying proforma combined financial statements ('proforma financial statements') of Cinemax India Limited (formerly known as Cinemax Cinemas (India) Private Limited) ('the Company') for the two years ended March 31, 2006. These proforma financial statements comprise of proforma combined balance sheet as on March 31, 2005 and 2006 and the proforma combined profit and loss account for the two years ended March 31, 2006 and the related notes thereon. The proforma financial statements include effect of consolidation based on an assumption that all the companies in the Group which are in the business of film exhibition are the subsidiaries of the Company from April 1, 2004. The proforma adjustments reflecting the said transactions are described in Note 1 to **Annexure 'XXXII'**.
2. The pro forma adjustments have been applied by the management to the historical amounts in the attached standalone historical financial statements of the Company attached to the proforma financial statements. These historical financial statements are derived from the historical audited financial statements for the two years ended March 31, 2006. The proforma adjustments are based on management's assumptions and principles of consolidation as described in Note 1 (g) to **Annexure 'XXXII'**.
3. The management of the Company is responsible for preparation and presentation of proforma financial statements of the Company. This includes:
 - Identifying components viz. the entities to be consolidated, and including the financial information of the components in the proforma financial statements;
 - Issuing instructions to the management of resulting subsidiaries specifying the Company's requirements relating to financial information of the components to be included in the proforma financial statements;
 - Obtaining accurate and complete financial information from components;
 - Use of appropriate consolidation procedures; and
 - Making appropriate consolidation adjustments.
4. We did not audit the financial statements of resultant subsidiaries, viz. Vista Entertainment Private Limited, Kanakia Creators Private Limited, Kanakia Shelters Private Limited, Rupam Private Limited, Hariyash Theatres Private Limited, Vrushti Theatres Private Limited, Cineline Cinemas (India) Private Limited and Cineline Multiplex Theatres (India) Private Limited for the two years ended March 31, 2006, whose financial statements were audited by other auditors and we have relied upon these audited financial statements duly restated for the purpose of consolidation and performing limited review. These restated financial statements reflect total assets of Rs. 477.70 million as at March 31, 2006, Rs. 399.26 million as at March 31, 2005, total revenue of Rs. 307.19 million for the year ended March 31, 2006, Rs. 190.80

million for the year ended March 31, 2005. Further, we did not audit the financial statements of the Company for the year ended March 31, 2005, whose financial statements were audited by other auditors and we have relied upon these audited financial statements duly restated for the purpose of consolidation and performing limited review. These restated financial statements reflect total assets of Rs. 551.81 million as at March 31, 2005 and total revenue of Rs. 154.69 million for the year ended March 31, 2005. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.

5. A limited review of proforma financial statements consists principally of applying analytical procedures for financial data and making inquiries of company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of opinion on management's assumptions, the proforma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion.
6. The objective of the proforma financial statements is to show what the significant effects on the historical financial statements might have been, had the transaction occurred at an earlier date. However, proforma financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained, had the above mentioned transaction actually occurred earlier.
7. Based on limited review carried out by us of the proforma financial statements, nothing came to our attention that causes us to believe that management's assumptions do not provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction described in Note 1 to **Annexure 'XXXII'**, and that the related proforma adjustments do not give appropriate effect to those assumptions in the proforma financial statements for the year ended March 31, 2005 and March 31, 2006.
8. This report is intended solely for your information and for inclusion in the offer document in connection with the proposed Initial Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For **RSM & Co.**
Chartered Accountants

Vilas Y. Rane
Partner
Membership No.: F-33220

Place: Mumbai

Date: September 18, 2006

Cinemax India Limited

Proforma Combined Balance Sheet, As Restated

Rupees in Million

Particulars	As at March 31, 2005	As at March 31, 2006
FIXED ASSETS		
Gross Block	510.31	603.60
Less: Depreciation	58.04	87.32
Net Block	452.27	516.28
Capital Work In Progress	41.53	125.54
GOODWILL ON COMBINATION	0.20	0.20
INVESTMENTS	11.94	8.53
DEFERRED TAX ASSETS (NET)	-	2.92
CURRENT ASSETS, LOANS AND ADVANCES		
Inventories	90.58	169.74
Sundry Debtors	12.35	37.85
Cash and Bank Balances	154.95	27.94
Loans and Advances	186.08	336.17
A.	443.96	571.70
Total (A)	949.90	1225.17
LIABILITIES AND PROVISIONS		
Secured Loans	290.21	543.46
Unsecured Loans	152.24	57.63
Current Liabilities	277.33	331.54
Provisions	13.47	38.98
Deferred Tax Liability (Net)	7.42	9.23
Total (B)	740.67	980.84
NET WORTH (A) – (B)	209.23	244.33
REPRESENTED BY		
Share Capital	60.00	60.00
Capital Reserves	85.08	42.41
Reserves & Surplus	65.18	141.97
Interest of Other Shareholder in Group	0.14	0.14
Less: Miscellaneous Expenditure	1.17	0.19
NET WORTH	209.23	244.33

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Proforma Combined Profit and Loss account, As Restated

Particulars	Rupees in	
	Million	
	For the year ended March 31, 2005	For the year ended March 31, 2006
INCOME		
Operating Income	336.89	723.34
Other Income	8.60	22.44
TOTAL	345.49	745.78
EXPENDITURE		
Operating Expenses	167.68	446.56
Employees Remuneration and Benefits	18.14	29.60
Administrative and Selling Expenses	48.02	95.62
Provision for doubtful debts	-	-
Preliminary Expenses Written Off	0.09	-
Financial charges	9.92	40.59
Depreciation	21.84	29.27
TOTAL	265.69	641.65
PROFIT BEFORE PRIOR PERIOD ADJUSTMENTS, EXTRAORDINARY ITEMS AND TAX	79.80	104.13
Add/Less: Taxes related to earlier years		
Less: Prior period items		
PROFIT BEFORE TAX	79.80	104.13
Provision For Income Tax	12.38	27.81
Deferred Tax Expenses / (Income)	5.21	(1.11)
Provision For Wealth Tax	-	-
Provision For Fringe Benefit Tax	-	0.64
PROFIT AFTER TAX	62.21	76.79
Add: Profit /(Loss) brought forward from previous year	2.97	65.18
BALANCE CARRIED OVER TO BALANCE SHEET	65.18	141.97

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Schedules forming part of Proforma Combined Balance Sheet and Profit and Loss Account for the two years ended March 31, 2006

Notes on Accounts

1. Principles and assumptions used for proforma combined financial statements and proforma adjustments

- a) The proforma combined financial statements have been prepared substantially applying the principles laid in the Accounting Standard (AS) 21 Consolidated Financial Statements issued by the Institute of Chartered Accountants of India as considered appropriate for the purposes of these proforma combined Balance Sheet, and Profit and Loss Account, together referred to in as 'proforma financial statements'. However, the proforma financial statements do not include disclosures relating to combined cash flow statement.
- b) Following are the companies whose restated accounts have been considered for the proforma financial statements.

Cinemax India Limited ('the Company' or 'the holding company') shareholding in the following companies ('resultant subsidiaries') as on March 31, 2005 and March 31, 2006 are as under:

<i>Name of the subsidiary companies</i>	<i>March 31, 2005</i>		<i>March 31, 2006</i>	
	<i>No. of shares</i>	<i>% of holding</i>	<i>No. of shares</i>	<i>% of holding</i>
Vista Entertainment Private Limited	101,000	100.00	101,000	100.00
Kanakia Creators Private Limited	-	-	43,000	100.00
Kanakia Shelters Private Limited	-	-	43,000	100.00
Rupam Private Limited	-	-	200	100.00
Hariyash Theatres Private Limited	-	-	4,000	100.00
Vrushti Theatres Private Limited	-	-	10,000	100.00
Cineline Cinemas (India) Private Limited *	-	-	18,020	36.04
Cineline Multiplex Theatres (India) Private Limited	-	-	3,000,000	100.00

* The wholly owned subsidiary companies of the Company hold 35.60% of shares in this company, aggregating to 71.64% along with the shares held by the Company for the year ended March 31, 2006.

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- c) The shareholding of Cineline Cinemas (India) Private Limited (subsidiary) as on March 31, 2005 and March 31, 2006 are as under:

<i>Name of the shareholders</i>	<i>March 31, 2005</i>		<i>March 31, 2006</i>	
	<i>No. of shares</i>	<i>% of holding</i>	<i>No. of shares</i>	<i>% of holding</i>
Kanakia Creators Private Limited	3,550	7.10	3,550	7.10
Kanakia Shelters Private Limited	3,550	7.10	3,550	7.10
Rupam Private Limited	3,600	7.20	3,600	7.20
Hariyash Theatres Private Limited	3,550	7.10	3,550	7.10
Vrushti Theatres Private Limited	3,550	7.10	3,550	7.10
Cinemax India Limited	-	-	18,020	36.04
Kanakia Finance and Investment Private Limited	3,545	7.09	3,545	7.09
Kanakia Gruhnirman Private Limited	3,545	7.09	3,545	7.09
Kanakia Housing Private Limited	3,545	7.09	3,545	7.09
Vrushti Builders Private Limited	3,545	7.09	3,545	7.09
Rasesh B. Kanakia	4,500	9.00	-	-
Himanshu B. Kanakia	4,500	9.00	-	-
Rupal R. Kanakia	4,410	8.82	-	-
Hiral H. Kanakia	4,410	8.82	-	-
Babubhai M. Kanakia	200	0.40	-	-
Total	50,000	100.00	50,000	100.00

For the purpose of combination, the companies stated in Note 1 (b) above, which are in the business of film exhibition are considered as part of the Group. Although all the subsidiary companies, other than Vista Entertainment Private Limited, became subsidiaries of the Company during December 2005; for the purposes of combination, it has been assumed that all the above said companies in the Group have become subsidiary of the Company w.e.f. April 1, 2004.

- d) Basis of preparation of proforma financial statements

The proforma financial statements are prepared under the historical cost convention, on accrual basis of accounting and in conformity with the accounting principles generally accepted in India.

The preparation of proforma financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of proforma financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Any revision to accounting estimates is recognized in the current and future periods.

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e) Principles of proforma financial statements

The proforma financial statements relate to the Company and its subsidiaries. The proforma financial statements have been prepared in accordance with the principles and procedures required for the preparation and presentation of financial statements as laid down under the accounting standards issued by the Institute of Chartered Accountants of India. The restated audited financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like assets, liabilities, income and expenses after fully eliminating intra-group balances and transactions and resulting unrealized gain/losses. The Group accounts for investments by equity method of accounting where it is able to exercise significant influence over the operating and financial policies of the investee.

The proforma financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statements.

f) The proforma financial statements is prepared by consolidating in the stand alone financial statements of the Company, the:

- i) Financial statements of Vista Entertainment Private Limited based on investment criteria and the financial statements of Kanakia Creators Private Limited, Kanakia Shelters Private Limited, Rupam Private Limited, Hariyash Theatres Private Limited, Vrushti Theatres Private Limited, Cinline Cinemas (India) Private Limited and Cinline Multiplex Theatres (India) Private Limited based on the criteria of control for the year ended March 31, 2005, although the Company acquired the shares in December 2005.
- ii) Financial statements of all the above companies based on the investment criteria for the year ended March 31, 2006.

g) Accounting assumptions made for restated proforma financial statements:

- i) It has been assumed that all the companies mentioned in Note 1(b) above have become subsidiaries as on April 1, 2004.
- ii) The accounts of the above said companies have been restated to comply with the uniform accounting policy of the holding company relating to the accounting of depreciation.
- iii) The difference between the cost of investment made by the Company in Vista Entertainment Private Limited during the year ended March 31, 2005 and the net worth in this company as calculated as on April 1, 2004 have been accounted as Goodwill. In respect of other companies where no investments have been made in these companies during the year ended March 31, 2005, the cost of investments has been considered as Nil and accordingly, the difference is accounted as Capital Reserve.

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- iv) The cost of investments made by the Company in these companies during the year ended March 31, 2006 have been adjusted against the opening Capital Reserve, as worked out in point (iii) above.
- v) The investments aggregating to Rs. 141,800 (representing 14,180 shares) in Cinline Cinemas (India) Private Limited made by the directors, relatives of directors and the other companies in which the directors hold substantial interest have been considered as the Group investments and not treated as minority interest. This has been disclosed as 'Interest of other shareholders in Group' in the financial statements.

2. Entities used for proforma combination

The entities considered in the consolidated financial statements are:

Name of the entity

Resulting subsidiaries and their downstream subsidiaries (for the year ended March 31, 2005 and 2006):

Vista Entertainment Private Limited
Kanakia Creators Private Limited
Kanakia Shelters Private Limited
Rupam Private Limited
Hariyash Theatres Private Limited
Vrushti Theatres Private Limited
Cinline Cinemas (India) Private Limited
Cinline Multiplex Theatres (India) Private Limited

3. Summary of significant accounting policies

a) Fixed assets and Depreciation

Fixed assets, both tangible and intangible, are stated at cost of acquisition/construction. Cost includes taxes, duties, freight and other incidental expenses related to acquisition/construction. Interest on borrowings, to finance acquisition of fixed assets during construction period is capitalized.

Depreciation on fixed assets is provided on the straight line method at the rates specified under Schedule XIV of the Companies Act, 1956.

b) Investments

Long-term investments are shown at cost. Provision for diminution in the value of investments is made to recognize a decline of a permanent nature. Current investments are carried at the lower of cost and fair value as at the balance sheet date.

c) Inventories

Stocks of foods and beverages are valued at the lower of cost or net realizable value.

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Stocks from realty business are valued at the lower of cost or net realizable value.

Construction work-in-progress, including stock of materials, is carried at cost. Cost includes materials, cost of land, direct expenses, interest and attributable overheads. Cost of materials is arrived at on first-in-first-out basis.

d) Revenue recognition

i) Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Amount of Value added tax and service tax collected on generating operating revenue has been shown as a reduction from the operating revenue.

ii) Revenue from sale of tickets of films is recognised as and when the film is exhibited and is inclusive of entertainment tax.

iii) Revenue in respect of realty development activities is recognized upon the transfer of significant risks and rewards to the buyer in terms of the underlying sale agreement/letter of allotment, provided it is not unreasonable to expect ultimate collection.

iv) Revenue from sale of foods and beverages is recognised upon passage of title to customers, which coincides with their delivery and is net of refund, discounts, complimentary and VAT.

v) Advertisement revenue is recognised as and when advertisements are displayed at the cinema hall and are net of service tax.

vi) Interest revenue is recognised on a time basis, taking into account the amount outstanding and the rates applicable.

vii) Revenue from rent is recognised based upon the agreement, for the period the property has been let out.

e) Borrowing Costs

Borrowing costs incurred on constructing or acquiring a qualifying asset (including real estate projects) are capitalized as cost of that asset/projects until it is ready for its intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue and recognized as an expense in the Profit and Loss account.

f) Retirement benefits

Contribution to defined contribution schemes such as provident fund and pension fund are charged to profit and loss account as incurred.

The provision for present liability of future payments of gratuity has been made on actuarial valuation.

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g) Miscellaneous Expenditure

Miscellaneous expenditure such as share issue expenses are written off over the period of five years.

h) Taxes on income

Current tax is ascertained on the basis of taxable income computed in accordance with the provisions of the Income Tax Act, 1961. Deferred tax is recognized on timing differences between accounting income and taxable income, which arise in an accounting period and are capable of reversal in later periods. Deferred tax assets are recognized when there is reasonable certainty of realization; in case of carry forward depreciation / business losses, deferred tax assets are recognized only where there is virtual certainty that the Company will have sufficient future taxable income against which the losses /depreciation can be set off. Deferred tax assets / liabilities are reviewed at each balance sheet date.

i) Assets taken on Lease (Hire Purchase)

Assets taken on finance lease (including on hire purchase) on or after 1st April 2001 are accounted in accordance with Accounting Standard 19 on Leases, issued by The Institute of Chartered Accountants of India (ICAI). Lease payments are apportioned between finance charges and reduction of outstanding liabilities.

j) Provisions, contingent liabilities and contingent assets:

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised but are disclosing in the notes. Contingent assets are neither recognised nor disclosed in the financial statements.