

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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**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 six months ended September 30, 2006. These proforma financial statements comprise of proforma combined balance sheet as on September 30, 2006 and the proforma combined profit and loss account for the six months ended September 30, 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. The proforma adjustments reflecting the said transactions are described in Note 1 to **Annexure XXXIV**.
2. The proforma 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 six months ended September 30, 2006. The proforma adjustments are based on management's assumptions and principles of consolidation as described in Note 1 (vi) to **Annexure XXXIV**.
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 the subsidiaries and the resultant subsidiaries, viz. Vista Entertainment Private Limited, Growel Entertainment Private Limited and Nikmo Finance Private Limited for the six months ended September 30, 2006, whose financial statements were audited by other auditors and we have relied upon these audited financial statements for the purpose of consolidation and performing limited review. These financial statements reflect total assets of Rs. 203.72 million as at September 30, 2006 and total revenue of Rs.157.02 million for the period ended

**Cinemax India Limited**  
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September 30, 2006. 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 XXXIV**, and that the related proforma adjustments do not give appropriate effect to those assumptions in the proforma financial statements for the six months ended September 30, 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

Dated: - December 26, 2006

**Cinemax India Limited  
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**Proforma Combined Balance Sheet**

Rupees in Million

| Particulars                                 | As at<br>September<br>30, 2006 |
|---|--------------------------------|
| <b>FIXED ASSETS</b>                         |                                |
| Gross Block                                 | 832.89                         |
| Less: Depreciation                          | 111.57                         |
| Net Block                                   | <b>721.32</b>                  |
| Capital Work in progress / capital advances | <b>34.34</b>                   |
| <b>GOODWILL ON AMALGAMATION</b>             | <b>17.18</b>                   |
| <b>GOODWILL ON COMBINATION</b>              | <b>4.61</b>                    |
| <b>INVESTMENTS</b>                          | <b>8.02</b>                    |
| <b>CURRENT ASSETS, LOANS AND ADVANCES</b>   |                                |
| Inventories                                 | 154.88                         |
| Sundry Debtors                              | 36.92                          |
| Cash and Bank Balances                      | 20.15                          |
| Loans and Advances                          | 365.58                         |
| <b>A.</b>                                   | <b>577.53</b>                  |
| <b>Total (A)</b>                            | <b>1363.00</b>                 |
| <b>LIABILITIES AND PROVISIONS</b>           |                                |
| Secured Loans                               | 675.62                         |
| Unsecured Loans                             | 129.50                         |
| Current Liabilities                         | 195.64                         |
| Provisions                                  | 50.79                          |
| Deferred Tax Liability (Net)                | 34.35                          |
| <b>Total (B)</b>                            | <b>1085.90</b>                 |
| <b>NET WORTH (B)</b>                        | <b>(A) – 277.10</b>            |
| <b>REPRESENTED BY</b>                       |                                |
| Share Capital                               | 211.70                         |
| General Reserves                            | -                              |
| Profit & Loss                               | 70.46                          |
| Less: Miscellaneous Expenditure             | 5.06                           |
| <b>NET WORTH</b>                            | <b>277.10</b>                  |

**Cinemax India Limited**  
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**Proforma Combined Profit and Loss Account**

Rupees in Million

| <b>Particulars</b>                               | <b>For the six months ended September 30, 2006</b> |
|--|--|
| <b>INCOME</b>                                    |  |
| Operating Income                                 |  |
| Ticket sales                                     | 327.32   |
| Sale of Food and Beverages                       | 70.85  |
| Advertisement Income                             | 20.96  |
| Project Income                                   | 71.72  |
| Giggles & Game Income                            | 4.31   |
| Other Income                                     | 9.19   |
| <b>TOTAL</b>                                     | <b>504.35</b>                                      |
| <b>EXPENDITURE</b>                               |  |
| Operating Expenses                               |  |
| Distributor's Share                              | 95.89  |
| Entertainment Tax                                | 45.24  |
| Rent   | 23.22  |
| Power & Fuel                                     | 24.36  |
| Cost of Food and Beverages                       | 24.18  |
| Cost of projects                                 | 66.83  |
| Other Expenses                                   | 5.02   |
| Employees Remuneration and Benefits              | 29.64  |
| Administrative and Selling Expenses              | 73.40  |
| Interest   | 25.73  |
| Depreciation                                     | 24.19  |
| Amortization of Goodwill                         | 1.91   |
| <b>TOTAL</b>                                     | <b>439.61</b>                                      |
| <b>PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX</b> | <b>64.74</b>                                       |
| Less : Extraordinary Items (Refer Note 5)        | 5.08   |
| <b>PROFIT BEFORE TAX</b>                         | <b>59.66</b>                                       |
| Provision For Income Tax (including wealth tax)  | 9.40   |

**Cinemax India Limited**  
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| <b>Particulars</b>  | <b>For the six months ended September 30, 2006</b> |
|---|--|
| Short Provision for Tax of Earlier Year                       | 0.69   |
| Deferred Tax Expenses / (Income)                              | 7.10   |
| Provision For Fringe Benefit Tax                              | 0.72   |
| <b>PROFIT AFTER TAX</b>                                       | <b>41.75</b>                                       |
| <b>Add: Profit /(Loss) brought forward from previous year</b> | <b>121.24</b>                                      |
| <b>Balance available for appropriation</b>                    | <b>162.99</b>                                      |
| <b>Less: Proposed Preference Dividend &amp; Tax thereon</b>   | <b>0.03</b>  |
| <b>Less: Amount utilized for bonus shares issued</b>          | <b>92.50</b>                                       |
| <b>BALANCE CARRIED OVER TO BALANCE SHEET</b>                  | <b>70.46</b>                                       |

**Cinemax India Limited  
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**Schedules forming part of Proforma Combined Balance Sheet and Profit and Loss Account  
for the six months ended September 30, 2006**

**Notes on Accounts**

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

- a) The proforma 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'. The proforma financial statements for the six months ended September 30, 2006 does not include disclosures relating to combined cash flow statement.
- b) Following are the companies whose accounts have been considered for the proforma financial statements.

Cinemax India Limited ('the Company' or 'the holding company') shareholding in the following companies ('subsidiaries') as on September 30, 2006:

| <i>Name of the subsidiary companies</i> | <i>September 30, 2006</i> |                     |
|---|---------------------------|---------------------|
|   | <i>No. of shares</i>      | <i>% of holding</i> |
| Vista Entertainment Private Limited     | 101,000                   | 100                 |
| Growel Entertainment Private Limited    | 10,000                    | 100                 |
| Nikmo Finance Private Limited *         | 10,020                    | 100                 |

\* The shares of Nikmo Finance Private Limited are wholly held by Growel Entertainment Private Limited which is the wholly owned subsidiary of the Company.

For the purpose of combination, the companies stated in Note 1(ii) above, which are in the business of film exhibition, are considered as part of the Group.

**c) 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

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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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.

d) 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 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.

Where the cost of the investment is higher than the net worth of the subsidiary at the time of acquisition the resulting difference is treated as Goodwill. Similarly where the cost of the investment is lower than the net worth of the subsidiary at the time of acquisition the resulting difference is treated as Capital Reserve.

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

- i) Financial statements of Vista Entertainment Private Limited, Growel Entertainment Private Limited and Nikmo Finance Private Limited.
- ii) Financial statements of all the above companies based on the investment criteria for the six months ended September 30, 2006.

f) Accounting assumptions made for proforma financial statements:

- i) It has been assumed that Vista Entertainment Private Limited has become subsidiary as on April 1, 2004.
- ii) 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 investments have been made during the period ended September 30, 2006, the difference between the cost of investments and the net worth of these subsidiary companies has been accounted as Goodwill or Capital Reserve as the case may be.

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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**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 six months ended September 30, 2006):*

Vista Entertainment Private Limited  
Growel Entertainment Private Limited  
Nikmo Finance Private Limited

**3. Scheme of Amalgamation**

Scheme of Amalgamation ('SOA') of Rupam Private Limited, Hariyash Theatres Private Limited, Kanakia Shelters Private Limited, Kanakia Creators Private Limited, Vrushti Theatres Private Limited, Cinline Multiplex Theatres (India) Private Limited ( wholly owned subsidiaries) and Cinline Cinemas ( India) Private Limited ( together referred to as 'the amalgamating companies'), with Cinemax India Limited ('the Company').

- a) Pursuant to the Scheme of Amalgamation of the amalgamating companies with the Company, under the provisions of Section 391 to 394 of the Companies Act, 1956 which was approved by the shareholders of the amalgamating companies and the Company, and subsequently sanctioned by the Honorable High Court of Mumbai on April 28, 2006, the entire business undertaking along with assets and liabilities of the amalgamating companies were transferred to and vested in the Company with effect from April 1, 2006, being the 'Appointed Date'. The copy of the High Court order was filed with the Registrar of Companies, Maharashtra on May 18, 2006, being the 'Effective Date' on which date the SOA became effective and the amalgamating companies have been dissolved without being wound up.
- b) All the amalgamating companies were in the businesses of cinema exhibition. However, Hariyash Theatres Private Limited was also into the business of property development.
- c) As all the above mentioned amalgamating companies except for Cinline Cinemas (India) Private Limited were wholly owned by the Company, no shares were exchanged to effect the amalgamation. In respect of Cinline Cinemas (India) Private Limited, 71.64 % of the equity share capital was collectively held by the Company and its wholly owned subsidiaries, Upon the Scheme becoming effective, the remaining shareholders holding 14,180 equity shares of Rs.10 each constituting 28.36 % of the equity share capital were allotted 12 preference shares of Rs.10/- each in the Company for every equity shares held in Cinline Cinemas (India) Private Limited.
- d) The arrangement has been accounted for under the "purchase method" as prescribed by the SOA. Accordingly, all the assets and liabilities of the amalgamating companies have been transferred to and vested in the Company at their book values. Accordingly, the

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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excess or shortfall of the net assets of the amalgamating companies and the face value of the preference share issued after adjusting the investments held by the Company in the amalgamating companies has been debited / credited to Goodwill/General reserve account respectively.

**4. Summary of significant accounting policies**

a) Fixed assets and Depreciation

- a) 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.
- b) Leasehold improvements represent expenses incurred towards civil work, interior furnishings, etc .on the leased premises at corporate office and some of the theatres.
- c) Depreciation on fixed assets is provided on the straight-line method at the rates specified under Schedule XIV of the Companies Act, 1956, except for furniture, fixtures and electrical fittings on a leasehold premise, which are depreciated over the unexpired primary period of lease.
- d) Leasehold Improvements are amortized over the unexpired period of lease on a straight line basis.
- e) Goodwill arising on account of the amalgamation is amortised over the period of 5 years.

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

- a) Stocks of foods and beverages are valued at the lower of cost or net realizable value arrived on first –in-first out basis.
- b) Stocks from realty business are valued at the lower of cost or net realizable value.
- c) Construction work-in-progress, including stock of materials, is carried at cost. Cost includes materials, cost of land, direct expenses, interest and attributable overheads.

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.

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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- 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 by applying the percentage of completion method and 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 and leave encashment has been made on actuarial valuation as per Revised Accounting Standard -15 issued by ICAI. In case of Nikmo Finance Private Limited, the company does not have a policy of leave encashment; hence no provisions have been made for the leave encashment.
- g) **Miscellaneous Expenditure**
- Share issue expenditure is written off over the period of five years.
- h) **Taxes on income**

**Cinemax India Limited**  
**(Formerly known as Cinemax Cinemas (India) Limited)**

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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.

5. During the year, the Company has amalgamated the business of the amalgamating companies with itself pursuant to the SOA as explained in note no. 3 above.

a) As per the Accounting Standards (AS) 14 “Accounting for Amalgamation”, the said amalgamation in respect of wholly owned subsidiaries falls under ‘the amalgamation in the nature of merger’, and the accounting done under the ‘pooling of interest method’, wherein the assets, liabilities and other reserves of the wholly owned subsidiaries as on April 1, 2006 should have been recorded at their existing carrying amounts. The difference between the investments held by the Company and the share capital of the amalgamating companies should have been adjusted in reserves in the financial statements of the Company.

b) Had the Company followed the accounting treatment in accordance with the requirements of the above said accounting standard in respect of all the amalgamating companies, the balance of general reserve of the Company would have been a debit balance of Rs. 22,391,583 as against the reported figure of Rs. Nil (after capitalization of bonus shares), balance of profit and loss account would have been Rs.76,242,908 as against the reported figure of Rs.70,460,860, balance of investment allowance reserve would have been Rs.14,000 as against the reported figure of Rs. Nil, balance of miscellaneous expenditure to the

**Cinemax India Limited**

**(Formerly known as Cinemax Cinemas (India) Limited)**

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extent not written off would have been Rs. 5,225,202 as against the reported figure of Rs.5,060,188 and the balance of goodwill would have been Rs. 2,323,586 (before amortization) as against the reported figure of Rs. 17,175,717 (after amortization).

- c) During the period, the insurance company has settled the claims made by the Company on account of loss of assets due to fire. Upon final settlement, the excess claim of Rs.50.78 lacs has been rejected by the insurance company and hence the same has been charged off to the profit and loss account as 'extraordinary item'.