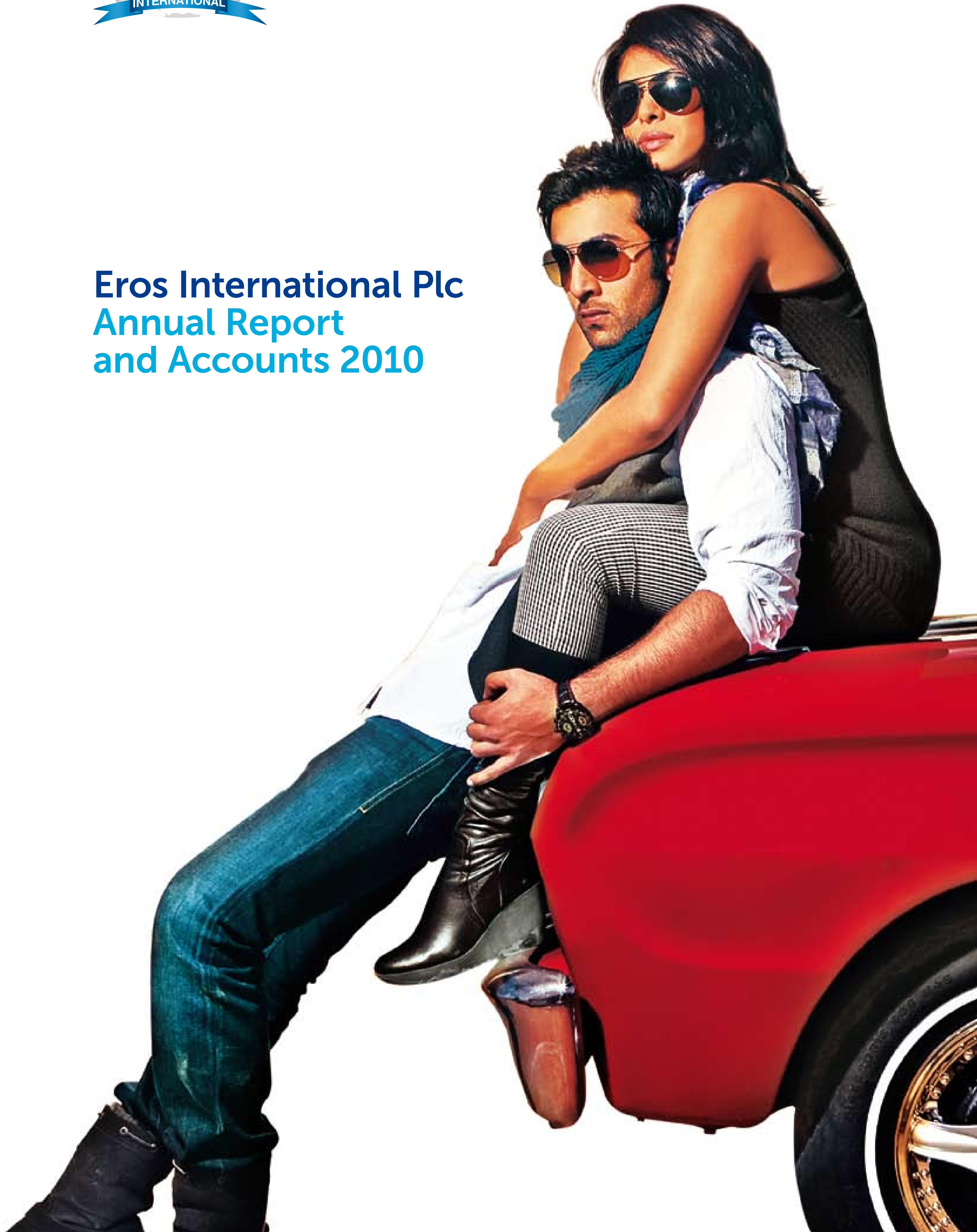
# Eros International Plc
## Annual Report and Accounts 2010



Eros International Plc Annual Report and Accounts 2010

# Eros International Plc is a global player in the rapidly expanding Indian media and entertainment arena which is growing at over 13% CAGR and slated to cross US$23 billion* by 2014.

* Source: KPMG.

Being vertically integrated means that Eros not only acquires and commissions film projects, but also globally distributes and exploits films across all formats including cinema, digital, home entertainment and television syndication.

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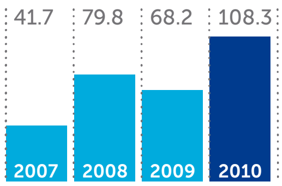
# Highlights

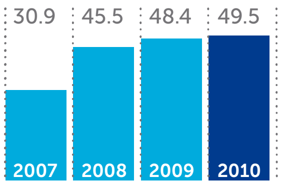
## Financial highlights

- Basic earnings per share up 4% to 36.5 cents (2009: 35.1 cents)
- Cash flow from operations up 59% to US$108.3 million (2009: US$68.2 million)
- Net debt reduced by 19% to US$104.3 million (2009: US$129.4 million)
- EBITDA ("Earnings before interest, tax, depreciation and amortisation") up 1% to US$110.4 million (2009: US$109.3 million)
- Profit before tax up 2% to US$49.5 million (2009: US$48.4 million)

### Cash from operations US$ million




### Profit before tax US$ million




## Operating highlights

### Theatrical

> Revenues grew by 8% to US$50.2 million (2009: US$46.3 million)

> The strong theatrical performance of the films released during the year is highlighted under the backdrop of the stand-off with the Indian multiplex chains as a result of which no films were released from April to June 2009

> Being effectively a nine month year for theatrical releases, the fewer Hindi releases, but stronger mix of films was led by the box office performance of Love Aaj Kal, Kambakkht Ishq and De Dana Dan

> 115 films were released in 2010 (2009: 94 films released in total) out of which 25 (2009: 22) were released globally including Tamil and other regional films

### Television

> Revenues fell by 17% to US$52.9 million (2009: US$64.0 million)

> This fall was in line with expectations as the television revenues had grown by a staggering 94% in 2009 from just US$33.0 million in 2008. In relation to 2008, the growth this year is still significant, especially in the context of fewer new Hindi releases

> Revenues came in from new and existing deals with Star, Zee TV, Sun TV, B4U, Kalaingar TV and other television broadcasters in India as well as dubbed and subtitled markets internationally

> A significant development during the year was the acquisition and subsequent syndication of the television rights of the film 3 Idiots (which is the biggest Indian box office success of all time) and other catalogue films

> Revenues include subscription revenues from the Ayngaran Tamil television network in Europe

### Music and Music Publishing

> Digital Music revenues were strong, led by Love Aaj Kal

> Eros entered into an agreement with EMI Music Publishing to push the Eros publishing catalogue internationally through the EMI's network and vice versa for the EMI catalogue in India

### Digital and Home Entertainment

> Revenues from Digital and Home Entertainment were up 1% to US$46.6 million (2009: US$46.2 million)

#### SVOD/VOD

> Subscription video on demand service partners in North America continued to grow with the addition of Time Warner and Cox to the already successful ComCast & CableVision services

> Additional growth both in Europe and South East Asia

> Several films were exploited on the major DTH platforms Dish TV, Tata Sky, Airtel and Reliance in India

#### Internet/IPTV

> Eros partner channel on YouTube has grown significantly delivering up to 1.6 million video views a day, monetised through ad clicks

#### Mobile

> Revenues from exploitation of ringtones and other content on mobiles, continued to grow, especially within India

#### EyeQube

> EyeQube visual effects studios continued to make contribution, Aladin and Veer released during the year for which EyeQube has won several visual effects awards

#### Blu-ray

> We released 11 Blu-ray titles during the year

### Content

> The Company has strong visibility of slate for 2011 and 2012 which is substantially funded

> Content capital expenditure in the year reduced significantly by 37% to US$81.5 million (2009: US$129.7 million)

> With declining capex and positive cash flows from operations, 2010 marked an inflection point in Group cash flows

# Eros at a Glance
# A vertically integrated studio model

The Group operates on an integrated studio model controlling content as well as distribution across all formats globally.

## Over 2,000 titles in film library

Built up over 33 years, the content library, which stands at over 2,000 films, contains "blockbusters" from across the years.

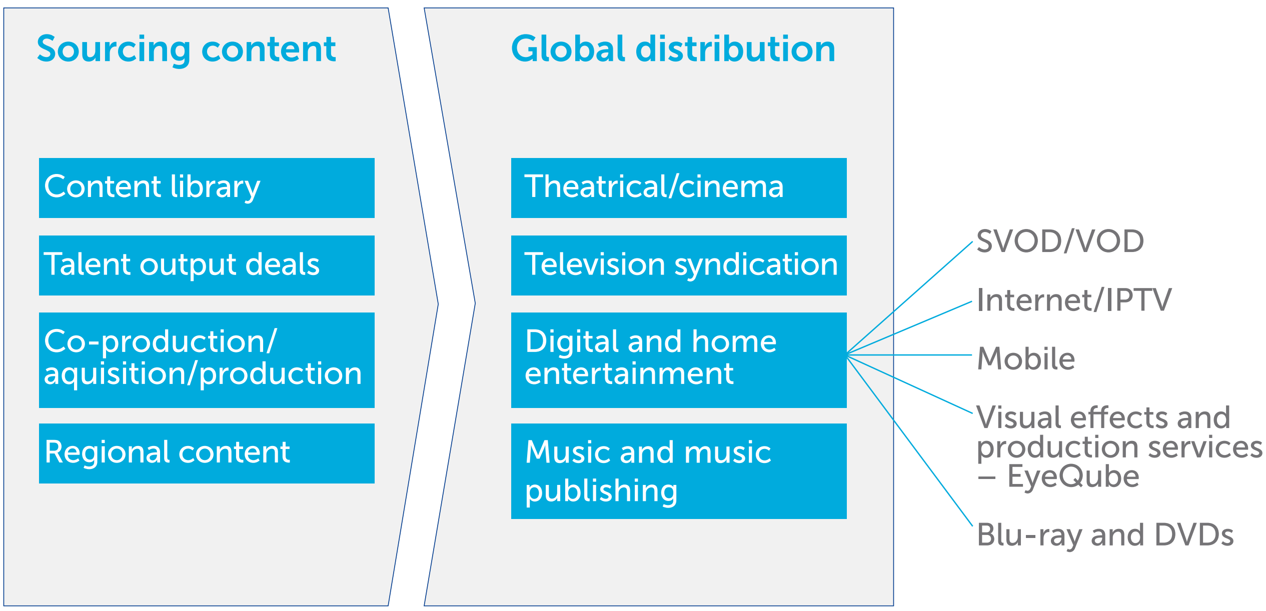
## Over 50 countries and dubbed in over 27 foreign languages

Our distribution platform leverages content across diverse channels throughout India, South and South East Asia, North America, Africa, Europe and the Middle East.

## Over 100 new titles released this year

New releases of Hindi and other Indian regional content brings further scale and diversification to our existing library as well as demonstrating our portfolio approach.

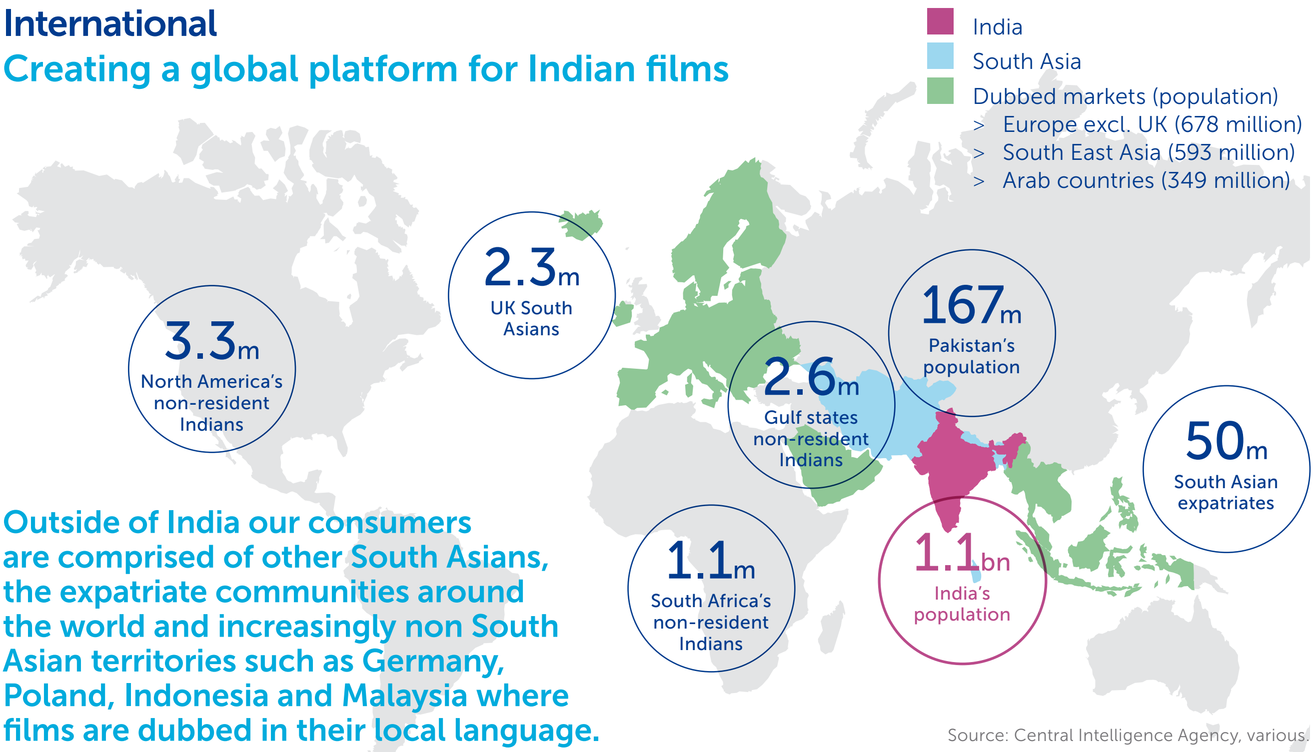
### Business model



# Our Marketplace

## Our global distribution platform targets all consumers around the World and caters for mass markets as well as niche audiences.

## International
### Creating a global platform for Indian films




Outside of India our consumers are comprised of other South Asians, the expatriate communities around the world and increasingly non South Asian territories such as Germany, Poland, Indonesia and Malaysia where films are dubbed in their local language.

Source: Central Intelligence Agency, various.

## India
### Positioned to capitalise

**1,000**
Over 1,000 movies released annually

**3.2 billion**
Cinema tickets sold annually

**525 million**
mobile phone subscribers

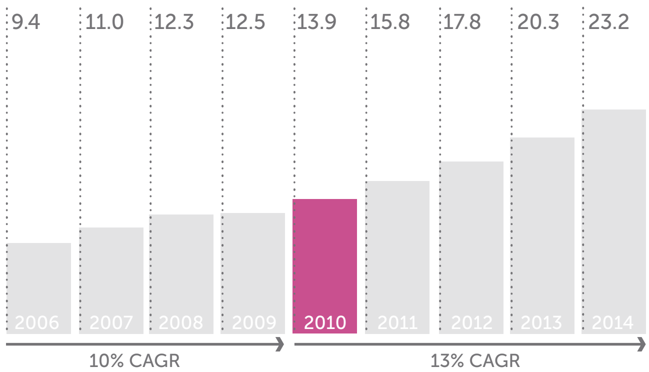
**119 million**
TV households

**10,000**
music tracks released every year

**6,000**
Newspapers published daily (including world's largest circulated daily)

### A rapidly growing Indian Media and Entertainment sector

Indian market growth (US$ billion)*




* At current exchange rates.

# Executive Chairman's Statement

## It is our vision to build on our market leadership position within the filmed entertainment arena and expand within the rapidly growing Indian media and entertainment sector.

## Kishore Lulla

**I am delighted and proud that Eros has been able to deliver another set of strong results ahead of market expectations and consistently meet the objectives identified when we listed in 2006. We are now poised to take on the next phase of consolidation over the next three to five years.**

### Strong performance

I am pleased to announce a very positive set of results for the fourth year in a row. For what was effectively a nine month year on account of the multiplex stand off, the underlying business has performed extremely well. This year our objective was less focused on top line and more focused on generating cash, controlling capex, reducing net debt and improving margins further and we have delivered on all counts. We generated cash of US$108.3 million from operations, a 59% increase over last year. We have managed to reduce net debt by 19% to US$104.3 million from US$129.4 million. While EBITDA has gone up by just 1% to US$110.4 million, 99% of the EBITDA converted into cash as compared to only 44% in 2009. With turnover dropping marginally by 4% to US$149.7 million, Profit before tax went up by 2% to US$49.5 million as a result of margin improvements and reduced overheads.

### Capital market updates

**Indian listing –** On 31 December 2009, we filed the Draft Red Herring Prospectus ("DRHP") with SEBI ("Securities and Exchange Board of India") for Eros International Media Limited, our Indian subsidiary to seek permission to list on the Bombay Stock Exchange and the National Stock Exchange.

**Main listing –** It is our intention that following the completion of the Indian listing, we begin the process to move from AIM to the Main Market of the London Stock Exchange. We now have over three years of track record of successful growth on AIM and believe that the Main Market represents a natural progression for Eros given our size and maturity as a business. We also hope to access additional pools of investment capital and liquidity as a result of the planned move.

### Outlook

It would be fair to say that the last two years have been extremely challenging in the competitive context within the Indian entertainment sector as well as the general economic and political climate and I am proud to say that Eros has come out both stronger and wiser. We have stayed focused on our core competency of content and distribution, built on our competitive advantage and strengths, and successfully executed the first phase of consolidation within the sector. We have scaled investments in content up and down to suit dynamic market conditions and tapped into equity and debt markets as appropriate.

We now find ourselves well positioned to take advantage of the various market opportunities in the broader entertainment space within India and internationally. Armed with a robust balance sheet and with strong free cash flows, the outlook for Eros is extremely encouraging.

**Kishore Lulla**
Executive Chairman

# Strategic Review

## Eros' roadmap is to build on its brand name and successful track record of three decades to scale the business organically and through acquisition and emerge as a major integrated studio during this consolidation.

### Capitalising on growth markets

Indian cinema continues to grow in popularity across the world especially in non-English speaking markets such as Germany, Poland, Russia, Indonesia, Malaysia and Arabic countries where local audiences watch Hollywood and Bollywood content dubbed or subtitled in their local language. In India alone, more than 3.2 billion cinema tickets are sold every year. With increasing multiplex screens as well as digital screens, and rising average ticket price, the box office revenues are on a sharp rise with digital screens having a positive impact on margins. In 2010, for the first time, digital screens in India were enabled with 3D projectors to facilitate the broadcast of Indian Premiere League cricket in cinemas in 3D. An upsurge in demand for 2D to 3D conversion of existing films, as well as new films in 3D format at competitive costs, is expected in the next one to three years. The intensified competition between television broadcasters within India also helps sustain a healthy appetite for satellite television syndication.

### Diversified revenue streams

With rapidly evolving alternative distribution platforms such as television and mobile and other digital means, reliance on box office revenues are rapidly reducing although box office revenues continue to grow as a whole. While at an industry revenue level, box office constitute more than 50% of the revenues, for Eros the mix is more evenly split especially since significant catalogue revenues are generated through television, home entertainment and digital exploitation. Mobile ringtones and downloads, subscription video on demand services, DTH, Internet, YouTube, IPTV, music videos are all growing rapidly. EyeQube visual effects studios have been slowly but surely making a mark as a leading specialist VFX studio not only in India but also generating attention from international studios. In 2010, 34% of our revenues came from theatrical, 35% from television and 31% from digital and home entertainment.

### Portfolio strategy

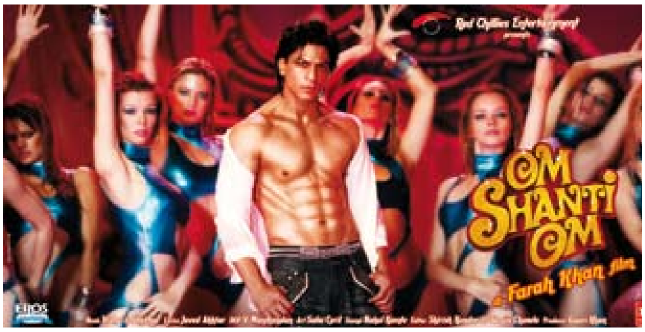
Eros releases over 70 new films every year with a mix of global, international only and regional releases. The portfolio approach to new films supported by a strong library allows us to maximise revenues across all the major formats and leverage competitive output deals and minimum guarantees based on the quality and depth of our content offering. This strategy allows us to spread the content investment risk over a large portfolio with revenues coming in from different markets and streams and a diversified customer base.

### Leveraging our strong distribution network

Having a well entrenched global distribution network ensures that Eros is able to exploit the content that it sources through co-productions and acquisitions as well as providing a well-honed machinery built over 30 years to monetise the valuable content library. The distribution network is instrumental in Eros being able to deliver consistently high margins compared to its peer group and is often a key deciding factor for talent as they choose studios to partner with on their projects. Our distribution network allows us to take the content to over 50 countries through our own offices in key strategic touch points across the globe or through our long-term business associates, dubbed and subtitled in over 27 different languages.

### Planning future outlook

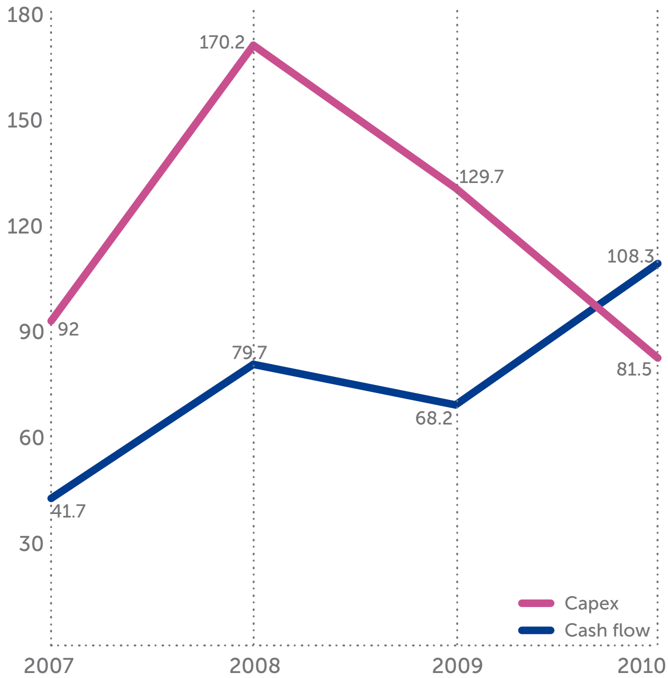
The key would be to manage growth as we continue to scale up the business, while maintaining current levels of capital expenditure and by increasing cash generation further, thereby reaping first-mover advantage from our investments in 2006 post the AIM listing. We have nurtured and shared mutually fruitful long-term relationships with talent as well as business associates in our 30-year journey so far and we hope to build on them while forging new relationships in the years to come. We will seek to widen our presence into regional languages as well as continue to acquire interesting catalogues to add to our library.




# Sourcing Content

## Our business model is built around securing content through co-productions, acquisitions or output deals and monetising the content through our global distribution network across formats along with our library of over 2,000 films.

### Content capex versus cash generation US$ million




**2010 marks the inflection point for free cash flow generation of US$26.8 million.**

### Investment in content

Since the AIM listing in 2006, the Company has invested over US$475 million in content advances we have seen the cash flow cycle turning around this year with net cash flow from operations, before interest and taxes of US$121.3 million exceeding the content capital expenditure of (US$81.5 million). Of the investment of US$475 million, film content of US$362 million has been released with 93% or US$336 million flowing back following exploitation. The US$362 million of released content equates to 256 film releases as well as catalogue investments in line with the Group's portfolio approach strategy.

As an early mover into the market, and anticipating competition to follow, the Group had tied up key talent and secured two to three year output deals with the investment peaking in 2008. This strategy has proven successful as 2009 saw content prices increase dramatically for the industry as a whole, but the Company's content capex had already begun to normalise. We expect the content capital expenditure stabilisation to continue in the future. Tying up the right talent and projects at the right time at the right prices has given the Group a considerable advantage.

Moving to the co-production model has allowed Eros to control costs, quality and mix of the film slate and at the same time scale rapidly. Since these are project specific, the working capital cycle is more efficient (12 to 18 months) and the co-production slate is supported by other acquisitions where the working capital cycle is even shorter (six to eight months with almost 50% of the cost to be funded upon delivery of the film).

The Hindi and Tamil catalogue of over 2,000 films which includes blockbusters of recent times as well as classic and evergreen movies is one of the most valuable assets of Eros. The constant monetisation of the catalogue along with the new release portfolio as a bundle is one of the key distribution advantages that Eros has over other players in the market and which makes its business model akin to that of a Hollywood studio.

# Sourcing Content
continued


## Content pipeline

Eros has full visibility of its film slate for 2011 as well as 2012. Some of the major Hindi releases are showcased below:

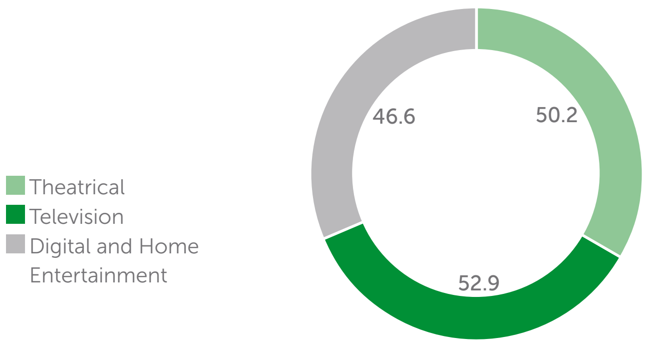
| Film name | Star cast/(director) | Production house | Tentative release date | Status |
|---|---|---|---|---|
| **Housefull** | Akshay Kumar, Deepika Padukone (Sajid Khan) | Sajid Nadiawala & Grandson | April 2010 | Released |
| **Paathshala** | Shahid Kapur, Ayesha Takia | Paperdoll Productions | April 2010 | Released |
| **Anjaana Anjaani** | Ranbir Kapur, Priyanka Chopra (Siddharth Anand) | Sajid Nadiawala & Grandson | September 2010 | Post production |
| **Golmaal 3** | Ajay Devgan, Kareena Kapur (Rohit Shetty) | Ashtavinayak Films | November 2010 (Diwali) | Post production |
| **No Problem** | Anil Kapoor, Sanjay Dutt (Anees Bazmee) | Anil Kapoor Film Company | December 2010 | Post production |
| **Toonpoor ka Superhero** | Ajay Devgan, Kajol | Big Screen Entertainment | December 2010 | Post production |
| **Mausam** | Shahid Kapur, Sonam (Pankaj Kapur) | Cinergy/ Vistaar Religare | February 2011 | Principal photography |
| **Agent Vinod** | Saif Ali Khan, Kareena Kapoor (Sriram Raghavan) | Illuminati Films | TBC 2011 | Principal photography |
| **RA. One** | Shahrukh Khan, Kareena Kapoor (Anubhav Sinha) | Red Chillies Entertainment | TBC 2011 | Principal photography |
| **Desi Boyz** | Akshay Kumar, John Abraham, Deepika (Rohit Dhavan) | Next Gen | TBC 2011 | Principal photography October |
| **Rockstar** | Ranbir Kapoor (Imtiaz Ali) Music A R Rehman | Ashtavinayak Films | TBC 2011 | Principal photography |
| **Untitled** | TBC | Red Chillies | TBC 2011 | Pre-production |
| **Untitled** | Saif Ali Khan, TBC | TBC | TBC 2012 | Development |
| **Untitled** | Saif Ali Khan, TBC | Anil Kapoor Film Company | TBC 2012 | Development |

Apart from the above films, the Group also has a slate of regional films in Marathi and Punjabi as well as Tamil films through its 51% subsidiary Ayngaran and some smaller scale Hindi releases.

# Global Distribution

## The business is about understanding and managing the nuts and bolts. The key growth drivers are Indian box office, television syndication, digital new media and our ability to monetise the content library across distribution platforms globally.

### Segmental revenues US$ million (FY 2010)




**Theatrical**

Revenues grew by 8% although this year was slightly marred by the stand-off with the six national multiplex chains in India that resulted in effectively no films being released in April to June 2009, giving only nine months of effective trading. An understanding was reached in June 2009 on revenue sharing terms which gave distributors a minimum 50% revenue share of the net box office in the first week.

We began the year with Kambakkth Ishq, our co-production with Sajid Nadiadwala, starring Akshay Kumar and Kareena Kapoor featuring Sylvester Stallone and Denise Richards in special appearances, which was one of the first films to be released in July 2009 after the three month releases hiatus. The film was released across 1,200 screens in India alone with over 640 digital screens making it one of the widest releases at the time. We followed this film with the romantic film Love Aaj Kal, our co-production with Illuminati Films, starring Saif Ali Khan and Deepika Padukone directed by Imtiaz Ali. Both the films enjoyed a successful box office run and still feature in the top 15 all time first week box office gross chart topping films of India with Love Aaj Kal being the bigger hit. The other big hit was in the second half of the year in November just after Diwali with De Dana Dan, another Akshay Kumar comedy directed by Priyadarshan.

This year we released 115 films in total as compared to 94 films in 2009, out of which 25 films were global as compared to 22 films global in 2009. However we released only 13 Hindi films in 2010 as against 19 Hindi releases in 2009. Theatrical revenues saw an 8% increase this year in spite of above factors reflecting strong box office performance. Increasingly the trend is to go for wide releases with a substantial part of the box office revenues coming in the opening week, especially the opening weekend. With a substantial number of screens being enabled with digital cinema, the costs of distribution are relatively lower in relation to increasing box office resulting in improving margins. Another reason for improving margins is that increasingly marketing and publicity costs are being subsidised by brand tie ups. Leading brands typically subsidise billboard and other marketing expenses in exchange for being able to attach their logo/brand to the film's marketing campaign to gain visibility and brand association especially with the leading stars on the poster of the film's campaign. As it is, the print and advertising budget for a typical Indian film is only 20% of the films budget as compared to almost 100% of the film's budget in the case of Hollywood. With this new trend of digital prints and brand tie ups, the marketing and distribution costs are reducing even further. The Company has its own distribution network in all the key circuits in India as well as the main international markets. This not only means we are not dependent on anyone else to be able to release the films efficiently, but also that we do not lose out in sub-distribution commissions which can be up to 20% of the revenues generated by the sub-distributor and we continue to maintain higher margins by generating commission revenues through self-distribution rather than passing on to a sub-distributor.

Outlook

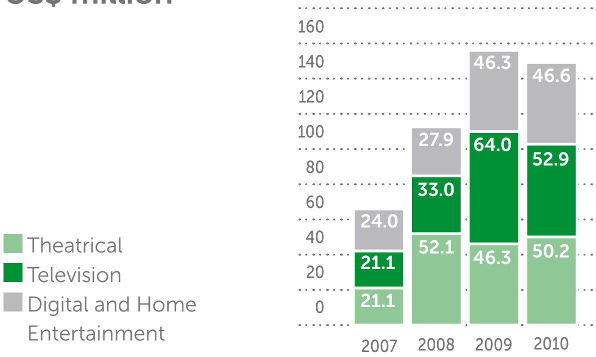
The very first release of 2010/11, Housefull starring Akshay Kumar and Deepika Padukone which was released in April 2010 is a huge box office success. We have a strong release slate this year with romantic and comedy genres with an A-list star cast which supports wide releases appealing to the family audiences. This year again we will be seeing a second half skew due to the release schedule being mainly planned around Diwali and Christmas.

**Television**

This was another good year for television syndication although not as exceptional as last year which saw a 94% growth over 2008. But since the number of major global Hindi releases was less than compared to the previous year, the revenues for television also scaled accordingly. We were successful in concluding new deals with Star, Zee, Sony and other broadcasters and aggregators. While box office revenues are very sensitive to hits and misses, television syndication is less sensitive to this and driven more by star cast and genre, especially since most television deals are also done pre-release. We have a particular advantage in the fact that having a portfolio of new and catalogue content allows us to tailor make bundles to suit a particular broadcaster's needs or audience taste. For example certain stars rate better on certain channels than others so they would be willing to pay a premium to secure a film slate which has those particular stars in it.

# Global Distribution continued

## Diversified revenue streams US$ million




The biggest box office blockbusters of the year and all time was a film called 3 Idiots starring Aamir Khan produced by Vidhu Vinod Chopra and directed by Raju Hirani which released in December 2009. This film was a huge success as it saw repeat audiences going back to the cinema to see it multiple times. Eros had not secured the theatrical distribution rights for the film. However post the box-office success, we secured the satellite and other rights and syndicated the same along with some catalogue films for premiere broadcast on Sony Entertainment television, again creating a new record for such a licence. This is a good example of how we capitalised on our strong industry relationships and converted an opportunity in a timely manner.

In the international markets we have successfully continued to license television rights to international channels in Europe, South East Asia, Eastern Europe and Arabic countries to tap into the dubbed and subtitled markets.

Outlook
We will continue to be opportunistic and emphasise our portfolio approach. We have proactively syndicated packages of unreleased films to broadcasters like Rupert Murdoch's Star TV Network and other aggregators. These deals in conjunction with relicensing of catalogue films, gives us significant visibility for 2010/11 satellite revenues.

### Digital and Home Entertainment

The digital new media revenue stream is probably the most diversified within the three main segments. It is a key division in unlocking the value of the Group's catalogue.

VOD/SVOD
In North America, Time Warner and Cox successfully launched the Eros "Bollywood Hits on Demand service" that is operated through Comcast. We are also working with a number of entities across the globe to offer VOD packages including On Demand, Chello and Du. The focus continues to be offering new releases and extensive catalogue to service providers for transactional or specialist SVOD services.

DTH
In India we continue to see Dish, Tata Sky, Reliance and Airtel pushing for further subscribers with total DTH subscribers currently at 16 million (Source: KPMG). Industry sources estimate this number could be 43 million by 2014.

Home Entertainment
Home Entertainment sales in India continue to increase as hardware pricing declines and legitimate content becomes more widely available. Outside of India the Group continued to experience declines in the expatriate South Asian markets as the move towards digital consumption continues. Blu-ray has not taken off but partially offset the declines. In Dubbed markets we continue to explore opening new territories such as South America and China.

### Music

Mobile still underpins the revenues in this market which we exploit through Hungama.

During the year we announced the conclusion of a music publishing deal with EMI whereby we will exploit their catalogue within South Asia and they will exploit ours in the rest of the world.

Outlook
Continued growth in digital is a key aim of the Group. We will take opportunities as they arise to partner with key operators and recently have concluded music deals with T-Series and Sony.

### Eros brands, investments and alliances

The Eros brand continues to be a globally recognised brand within the South Asian community. As operations continue to grow globally the brand is also now increasingly recognised within the global entertainment market.

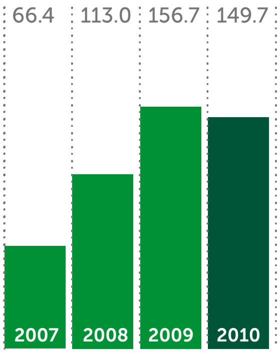
Ayngaran
Ayngaran continued to exploit its pre-eminent position in the Tamil filmed entertainment sector. Internationally it taps into the South Indian expatriate communities focused in Canada, United Kingdom and South East Asia as well as to the South Indian audiences within India. As the Indian market began to attract more competition it remained focused on international distribution and Ayngaran's one competency.

EyeQube
EyeQube's operations continue to expand. During the year their work on Veer and Aladin was critically acclaimed and they have now expanded into work on Hollywood Films and other Indian regional language films.

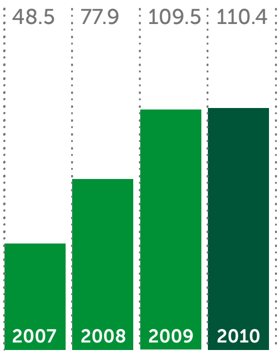
# Financial Review

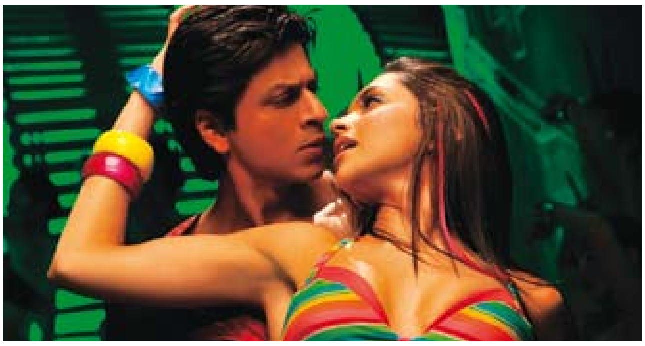
## A focus on reducing net debt levels in the year led to a 29% reduction as a result of strong cash flow from operations.

### Revenue US$ million




### EBITDA US$ million



This financial review is primarily based upon the comparison of our results for the year ended 31 March 2010 with those of 31 March 2009. Unless otherwise stated percentage growth relates to the percentage comparison between these two years.

Management focus is on EBITDA and net debt levels, with an awareness of increasing the value of the Group's content library and earnings per share.

**Group financial performance**
Revenue was US$149.7 million (2009: US$156.7 million) and EBITDA US$110.4 million (2009: US$109.3 million). The decline in revenue partially reflects the fallback in television syndication following 94% growth in the previous year and only an increase in theatrical revenues which was capped by the multiplex dispute which reflected theatrical releases in the opening quarter of the financial year.

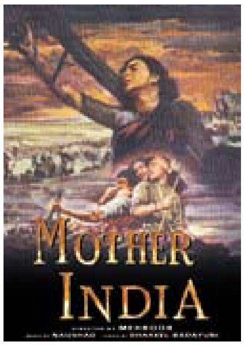
The income statement includes net financing costs of US$2.3 million (2009: US$1.3 million), an amortisation charge for content and other intangibles of US$57.5 million (2009: US$57.1 million) which leads to a pre-tax profit of US$49.5 million (2009: US$48.4 million).

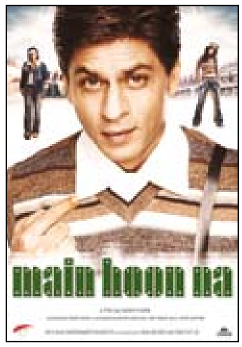
**Segmental performance**
As outlined in the 2009 Annual Report the Group has moved its film release slate more towards higher end movie releases in terms of star cast and production house. This saw theatrical revenues increase from US$46.3 million to US$50.2 million representing an 8% increase. The year ended 31 March 2010 figures also showed an increase over those of year end 31 March 2008 which had been US$52.1 million.

Following the significant growth in television syndication revenues in 2009, there was a 17% fall in 2010 to US$52.9 million from US$64.0 million. Underlying these figures the general trend is still moving up as Indian television continues to experience growth in advertising and subscriptions.

Digital and Home Entertainment revenues increased by 1% to US$46.6 million from US$46.2 million. Increases from global video on demand, advertising supported platforms and music as well as visual effects offset the continuing decline being experienced in the non-resident Indian DVD market.

# Financial Review continued




## Geographic performance

Revenues in India fell by 3% in the year reflecting the fall in Television Syndication which was offset by growth in theatrical revenues and a strengthening Rupee. European and North American revenues fell reflecting the decline in syndication to mainstream Indian TV channels, overseas operations and a reduced number of releases. In the Rest of the World catalogue sales helped a marginal 1% increase in revenues.

| | 2010 US$'000 | 2009 US$'000 | Change US$'000 | Change % |
|---|---|---|---|---|
| India | 96.2 | 99.3 | (3.1) | (3.1) |
| Europe | 19.4 | 22.8 | (3.4) | (14.9) |
| North America | 8.1 | 8.9 | (0.8) | (8.9) |
| Rest of World | 26.0 | 25.7 | 0.3 | 1.2 |
| Total | 149.7 | 156.7 | (7.0) | (4.6) |

(Based on customer location.)

## Earnings per share

Basic earnings per share ("EPS") increased by 4% to 36.5 cents (2009: 35.1 cents) reflecting the increase in profit attributable to the shareholders of Eros. The increase in EPS was marginally diluted by the issue of shares to employees during the year of just under 1% of the existing share capital. Diluted EPS increased 3.4%, the differential of 0.6% to the EPS increase being due to the minority dilution impact of the ESOP plan set up for employees in the Indian subsidiary Eros International Media Limited.

## Financing

A key focus of activities in the current year has been a targeted reduction of the Group's net debt which stood at US$129.4 million at the beginning of year. As the capital expenditure on content normalised in the year the Group focused on ensuring that working capital was also kept in line with the prior year and the end result was that net debt has been reduced to US$104.3 million at 31 March 2010.

Though net debt has been reduced the Group still has retained its overall debt facilities to allow it flexibility as opportunities arise. At 31 March 2010 available facilities stood at US$215,979,000 giving headroom of US$24,060,000. The debt profile has also changed in the year with now 79% (2009: 67%) being long-term borrowings.

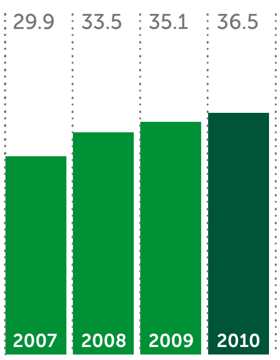
## Taxation

The overall effective tax rate was 14.4% (2009: 15.6%) which reflected a marginal movement in the profit profile of the Group within the various tax jurisdictions in which it operates. As in prior years over 60% of the income tax expense related to temporary deferred tax differences. Going forward this mix of current and deferred income tax expense will continue to move in line with content capital expenditure year on year movements.

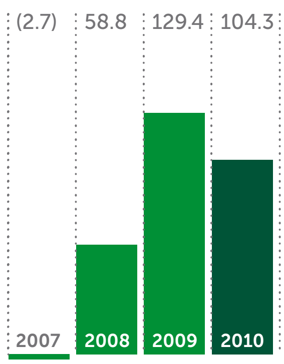
## Personnel

The number of personnel now employed by the Group over the year averaged 395 against 315 in the prior year.

## Earnings per share US$ cents




## Net debt US$ millions



# Board of Directors

**Kishore Lulla,** 48 years, is our Executive Chairman. He graduated with a bachelor's degree in Arts from Mumbai University. He has over 20 years of experience in the media and film industry. He is a member of the British Academy of Film and Television Arts and Young Presidents' Organisation and is also a board member of the University of California, Los Angeles ("UCLA"). He has been honoured at the Asian Business Awards 2007 and the Indian Film Academy Awards 2007 for his contribution in taking Indian cinema global. As Executive Chairman of Eros, he has been instrumental in spearheading the growth of Eros International Plc and expanding their presence in UK, USA, Dubai, Australia, Fiji and other international markets.

**Jyoti Deshpande,** 39 years, is our Chief Executive Officer. She graduated with a bachelor's degree in commerce and economics and a masters in business administration from Mumbai University. She has over 16 years of experience in the media and entertainment industry. She has previously worked in advertising with JWT, India before moving to the UK in 1997 where she was a senior consultant with MindShare, UK. She has been a part of the core team that founded B4U Television Network in the UK in 1998/99 and managed its expansion to other parts of the world in a span of two years. She has been with Eros since 2001 and was instrumental in helping Eros International Plc list on the AIM. She is part of the leadership team driving strategy as well as operations for the Group.

**Vijay Ahuja,** 53 years, is an Executive Director. He holds a bachelor's degree in commerce from Mumbai University. He co-founded Eros International Plc's UK business in 1988 and has since played an important role in implementing the key international strategies of Eros, helping expand the business to its present scale by making a significant contribution to developing the South East Asian markets for Eros, such as Singapore, Malaysia, Indonesia and Hong Kong.

**Sunil Lulla,** 45 years, is our Executive Vice Chairman. He graduated with a bachelor's degree in commerce from Mumbai University. He has over 20 years of experience in the business and has been instrumental in developing the Eros India Group. He has valuable relationships with the talent within the Indian film industry and has been instrumental in our Company's expansion into India distribution as well as home entertainment and music.

**Naresh Chandra,** 75 years, is our Senior Non-Executive Director. He graduated with a masters' degree in science from Allahabad University. A former civil servant, he joined the Indian Administrative Services in 1956 and has served as Chief Secretary in the State of Rajasthan, Commonwealth Secretariat Advisor on Export Industrialisation and Policy in Colombo (Sri Lanka), Advisor to the Government of Jammu and Kashmir, and successively Secretary to the Ministries of Water Resources, Defence, Home and Justice in the Government of India ("GOI"). In December 1990, he became Cabinet Secretary, the highest post in the Indian civil service. In 1992, he was appointed Senior Advisor to the Prime Minister of India. He has served as the Governor of the state of Gujarat in 1995/1996 and Ambassador of India to the United States of America in 1996/2001. He has also chaired the Committee on Corporate Audit and Governance, the Committee on Private Companies and Limited Companies Partnerships and the Committee on Civil Aviation Policy, for the GoI in 2007. He has been honoured with the Padma Vibhushan, a high civilian award, by the GOI in 2007. He is a director of various companies, including Vedanta Resources plc.

**Dilip Thakkar,** 73 years, is a Non-Executive Director, and is a practising Chartered Accountant since 1961, brings to the Board significant financial experience. He is a senior partner of M/S Jayantilal Thakkar and Company and a member of the Institute of Chartered Accountants in India. In 1986 he was appointed by the RBI as a member of the Indian Advisory Board for HSBC Bank and the British Bank of the Middle East for a period of eight years. He is the former President of the Bombay Chartered Accountants' Society and was then Chairman of its International Taxation Committee. He also has a degree in Commerce and Law from Mumbai University.

# Report of the Directors

### Principal activity
Eros International Plc is a global player in the rapidly expanding Indian media and entertainment arena which is growing at over 13% compound annual growth rate and slated to cross US$23 billion by 2014 (source: KPMG).

Being vertically integrated means that Eros not only produces and commissions film projects similar to the way in which Hollywood studios operate but also globally distributes and exploits films across all formats including cinemas, digital and home entertainment and television syndication.

### Business review and future developments
A review of the business is contained within the Executive Chairman's Statement and the Operating Review.

### Key performance indicators
A review of the key performance indicators is contained within the Financial Review.

### Directors
The Directors of the Company during the year and their interests in the shares of the Company as at 31 March 2010 and 31 March 2009 were as follows:

| | Ordinary Shares of 10p each | | Percentage |
|---|---|---|---|
| | **31 March 2010** | 31 March 2009 | shareholding at 31 March 2010 |
| Kishore Lulla* | **Up to 81,650,657** | Up to 81,650,657 | 70.3 |
| Jyoti Deshpande | **231,005** | 77,159 | 0.2 |
| Vijay Ahuja* | **Up to 78,866,959** | Up to 78,866,959 | 67.91 |
| Sunil Lulla* | **Up to 81,650,657** | Up to 81,650,657 | 70.3 |
| Dilip Thakkar | **–** | – | – |
| Naresh Chandra | **–** | – | – |

* Vijay Ahuja's, Kishore Lulla's and Sunil Lulla's interests in shares are by virtue of them being potential beneficiaries of discretionary trusts which hold shares in the Company. The change in the Director's shareholding during the year, was on allotment of 153,846 shares to Jyoti Deshpande as a bonus payments.

### Financial risk management
The financial risks faced by the Group, together with how they are managed are dealt with within the Corporate Governance section and within note 22 to the financial statements.

### Employee involvement
The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company. Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of an employee becoming disabled, every effort will be made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Employees are encouraged to own shares in the Company, and 28 (2009: 29) employees are currently shareholders and there are an additional 153 (2009: nil) employees of the Eros International Media Limited who are interested in that company's shares through its ESOP Plan. Information about the Company's affairs is communicated to employees through regular management meetings and the corporate website.

### Policy on supplier payments
The Company aims to pay all its suppliers within a reasonable period of their invoices being received and approved, provided that the supplier has performed in accordance with the relevant terms and conditions. At 31 March 2010 the number of days credit taken for purchases by the Company was 40 days (2009: 39 days).

**Placing of shares**
During the year, the Company issued on 29 June 2009 a further 117,303 Ordinary Shares at 10p each as part of an employee issue and on 13 August 2009, 738,458 Ordinary Shares at 10p each as part of a senior executive issue. The shares were issued at 80p, the mid-market price of the preceding day to the grant on 6 May 2010, which represents a premium of 70p to nominal value.

**Social responsibility**
The Group recognises the importance of respecting and supporting the communities in which it operates and, thus improving the positive impact of business in society.

**Ethical behaviour**
Eros expects its Directors and employees to exercise high ethical and moral standards at all times whilst representing the Group.

**The environment**
The Group recognises that the wise use of resources delivers both environmental and financial benefits. As part of our overall approach to corporate responsibility we aim to promote the maintenance of a healthy environment through responsible and sustainable consumption and production.

Our operations are predominantly office based, and here we try to minimise our impact where practicable. As part of this policy we:

- Ensure that all waste is stored and disposed of responsibly, and recycled where possible.
- Where possible use digital means of exhibition and distribution to minimise the impact on the environment of film print and freight delivery. On certain releases in India up to 50% of screens are catered to by digital means and the Group is now starting to distribute to cinemas digitally outside of India as well.

**Health and safety**
The Group takes all reasonable and practicable steps to safeguard the health, safety and welfare of its employees and recognises its responsibilities for the health and safety of others who may be affected by its activities.

**Diversity in the workplace**
The Group is committed to providing a working environment in which its employees are able to realise their potential and to contribute to business success irrespective of gender, marital status, ethnic origin, nationality, religion, disability, sexual orientation or age.

**Charitable and political contributions**
During the year the Group made no charitable donations (2009: US$119,557). There were no political donations during the year (2009: US$55,018 to the West Bengal Congress Committee).

**Insurance of Company officers**
The Company has maintained insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

**Going concern**
Having made enquiries the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

**Statement of Directors' responsibilities for the financial statements**
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

# Report of the Directors continued

Isle of Man Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements under International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the income of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Financial Statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- There is no relevant audit information of which the Group's auditors are unaware.
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Isle of Man and United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Auditors**
A resolution proposing the reappointment of Grant Thornton Chartered Accountants as auditors of the Company will be proposed at the Annual General Meeting.

**Jyoti Deshpande**
Chief Executive Officer
On behalf of the Board

26 July 2010

# Remuneration Report

The Remuneration Committee established by the Board comprises two Non-Executive Directors, Naresh Chandra and Dilip Thakkar. The Remuneration Committee reviews the performance of Executive Directors and senior executives and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders.

As an AIM listed company the Directors' Remuneration Report Regulations 2002 do not formally apply. However, the following information is disclosed voluntarily.

**Remuneration policy**
In determining the scale and structure of its awards the Committee also takes account of the need to offer a competitive remuneration structure to maintain the high calibre of the Executive Board and senior Group employees. Taking account of the position of the Group, the competitive environment and the potential growth of the Group the Committee believes that an overall compensation policy with a strong performance-related element is a prerequisite.

The main components of Executive Directors' remuneration, which can be mirrored with senior executives, are basic salary, annual salary bonus and share options.

In relation to all the three main strands of remuneration the Committee reviews the structure on an annual basis and takes account of individual performance, external market data and reports provided by advisors.

The remuneration of Non-Executive Directors is set by the Board as a whole, taking account of input from advisors.

**Directors service contracts**
All of the Executive Directors have letters of appointment with the Company and subsidiary company service agreements which were entered into on 27 June 2006. Under the terms of the letters of appointment, each Director receives a fee of £60,000 per annum. The service agreements with Executive Directors provide for the contract to be terminable by either party on 12 months' prior notice. The contracts allow for 25 days per annum paid holidays and allow for private medical insurance.

The Non-Executive Directors have both entered into letters of appointment with the Company, which provide them with annual fees of £40,000 or £50,000. The appointments are for an initial period of one year and thereafter are terminable on three months' notice.

The remuneration of each of the Directors for the year ended 31 March 2010 is set out below:

| | Salary US$'000 | Fees US$'000 | Benefits US$'000 | **2010 Total US$'000** | 2009 Total US$'000 |
|---|---|---|---|---|---|
| Kishore Lulla | 758 | 91 | 10 | **859** | 939 |
| Vijay Ahuja | 291 | 91 | 19 | **401** | 431 |
| Jyoti Deshpande | 539 | 91 | 3 | **633** | 373 |
| Sunil Lulla | 322 | 91 | 77 | **490** | 375 |
| Dilip Thakkar | – | 61 | – | **61** | 66 |
| Naresh Chandra | – | 61 | – | **61** | 66 |
| Total | 1,910 | 486 | 109 | **2,505** | 2,250 |

Benefits comprise of medical health insurance.

Arjan Lulla as Honorary Life President received a fee of £200,000 for the year ended 31 March 2010 (2009: £200,000).

As at 31 March 2010 Jyoti Deshpande had options over shares in the Company as set out below:

| Date of grant | Exercise price | Period exercisable in normal circumstances | Number |
|---|---|---|---|
| 21 June 2006 | £1.760 | June 2006 to June 2016 | 68,782 |

In addition Jyoti Deshpande also held options in the Group's subsidiary undertaking Eros International Media Limited as set out below:

| Date of grant | Exercise price | Period exercisable in normal circumstances | Number |
|---|---|---|---|
| 27 December 2009 | INR 100 | December 2009 to December 2013 | 713,950 |

# Statement by the Directors on Compliance with the Code of Best Practice

As an AIM listed company, Eros International Plc is not required to comply with the provisions of the Combined Code on Corporate Governance published by the Financial Reporting Council that applies to companies with a full London Stock Exchange listing. However, the Directors acknowledge the importance and value of good corporate governance procedures and have selected those elements of the Combined Code that they consider relevant and appropriate to the Group taking account of its size and structure.

**Corporate governance policy**
The Board's overriding requirement when looking at what principles to apply to good governance are that the Company be run in the long-term interest of the shareholders. In order to do this, the Company needs to effectively manage relationships with its employees, suppliers and customers and behave in an ethical manner with regard to the environment and society as a whole.

**The Board and its Committees**
At 31 March 2010, the Board consisted of four Executive Directors and two Non-Executive Directors. Naresh Chandra is the Senior Non-Executive Director. The two Non-Executive Directors have confirmed that they have been throughout the year, and continue to be, independent of the management of the Group and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The Board operates both formally, through Board and Committee meetings, and informally, through regular contact amongst Directors and senior executives. The Board is supplied in a timely manner with information in a form and a quality appropriate to enable it to discharge its duties. There is a schedule of matters that are specifically reserved to the Board for its decision, including approval of interim and annual results, dividend policy, approval of circulars and listing particulars, matters relating to share capital, approval of major capital expenditure and investments.

The Directors can obtain independent professional advice at the Company's own expense in performance of their duties as Directors.

The Board formally approves the appointment of all new Directors. All Directors are required to submit themselves for re-election at the first Annual General Meeting following their appointment and subsequent to this at the Annual General Meeting on a rotational basis, which ensures that each Director is submitted for re-election approximately every three years.

The Chairman of the Audit Committee is Dilip Thakkar with Naresh Chandra being the other independent member. The Audit Committee operates under terms of reference agreed with the Board and will normally meet up to three times a year to consider amongst other matters:

- The preliminary announcement of the annual results, to review the year's results and the audit findings.
- Internal risk management and controls and to consider progress reports on such matters.
- The half-year results and the scope of the full year audit and associated considerations.
- In carrying out its operations that Committee particularly focuses on:
  - major judgemental areas;
  - accounting policies and practices; and
  - compliance with accounting standards, the AIM rules of the London Stock Exchange and legal requirements.

The effectiveness of the internal control system is under constant review and a formal assessment is ongoing with reports provided from the internal audit function. The new rights database and accounting system is set for introduction by September 2010.

The Audit Committee also undertakes a formal assessment of the auditor's independence each year. Based on information supplied by the auditor and from its own assessment of the fees for audit and non-audit work for the Group in the year, the Committee has concluded that the nature and extent of the non-audit fees do not present a threat to the external auditor's independence.

In addition the Committee has approved the auditor's terms of engagement, the scope of the work and the process for the full audit. Based on written reports presented to the Audit Committee, the Committee has reviewed with the auditor the findings of their work and confirmed that all significant matters have been satisfactorily resolved.

During the year the Remuneration Committee comprised Naresh Chandra and Dilip Thakkar. The Committee meets periodically as required and is responsible for overseeing the policy regarding executive remuneration and for approving the remuneration packages for the Group's Executive Directors. It is also responsible for reviewing incentive schemes for the Group as a whole. Kishore Lulla as Executive Chairman, although not a member of the Committee, may attend meetings and provide input on proposals relating to other Executive Directors and other senior executives. He does not attend when the Committee discusses matters relating to him.

**Board and Committee meeting attendance**
The table below sets out the attendance of Directors at Board and Committee meetings by presence or by telephone of individual Directors.

| | Board | Audit | Remuneration |
|---|---|---|---|
| **Number of meetings** | | | |
| Kishore Lulla | 4 | – | 1 |
| Vijay Ahuja | 5 | – | – |
| Jyoti Deshpande | 5 | – | – |
| Sunil Lulla | 3 | – | – |
| Dilip Thakkar | 5 | 3 | 1 |
| Naresh Chandra | 5 | 3 | 1 |

**Shareholder communication**
The Company seeks to clearly communicate the plans they are pursuing and the likely financial and wider consequences of those plans. These goals and plans have been set out in the Chairman's Statement and the Operating Review and Financial Review. In addition, the Company seeks to regularly update shareholders through stock exchange announcements and wider press releases on its activities. The Group has recently started to send out shareholder's bulletins and is exploring other ways of keeping interested parties informed of its progress.

The Executive Directors regularly meet with institutional shareholders to discuss the Company's performance and future prospects. Comments made and views communicated by the institutional shareholders at these meetings together with feedback from the Company's advisors are reported back to the Board so that it can understand any shareholder issues. The first Annual General Meeting since the Company has been a listed entity will provide an opportunity for shareholders to address questions to the Chairman or the Board directly. Published information, including regulatory news is available on the Eros website, www.erosintl.com.

**Risk management**
The Board is ultimately responsible for the Group's system of internal control and for monitoring its effectiveness.

The Group's overall controls and procedures are reviewed on a regular basis and as the Group continues to expand, this will form part of an ongoing process. The aim of this process is to ensure that the Company has a robust framework that can manage the risks within the business and provide reasonable assurance against material loss or misstatement. An internal audit function exists and there is on ongoing process of review and discussion of findings with the Board and Audit Committee.

# Independent Auditor's Report to the Members of Eros International Plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Eros International Plc for the year ended 31 March 2010 which comprise the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, principal accounting policies, the notes to the consolidated financial statements and the Parent Company balance sheet, the notes to the Parent Company financial statements. The Group and Parent Company financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with Isle of Man law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Parent Company financial statements in accordance with Isle of Man law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Financial Review, Directors' Report, the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2010 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 March 2010;
- the Parent Company financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

**Grant Thornton**
Chartered Accountants
Exchange House
54/58 Athol Street
Douglas
Isle of Man
IM1 1JD

26 July 2010

# Consolidated Income Statement
## For the year ended 31 March 2010

| (in thousands of US Dollars) | Notes | Year ended 31 March 2010 | Year ended 31 March 2009 |
|---|---|---|---|
| **Revenue** | 1 | **149,729** | 156,697 |
| Cost of sales | 1 | **(81,710)** | (85,190) |
| **Gross profit** | 1 | **68,019** | 71,507 |
| Administrative costs | 1 | **(16,157)** | (20,501) |
| Operating profit | | **51,862** | 51,006 |
| Financing costs | 4 | **(3,696)** | (3,111) |
| Finance income | 4 | **1,387** | 1,850 |
| Net finance costs | 4 | **(2,309)** | (1,261) |
| Impairment of available-for-sale financial assets | 13 | **(6)** | (1,347) |
| **Profit before tax** | | **49,547** | 48,398 |
| Income tax expense | 5 | **(7,152)** | (7,571) |
| **Profit for the year** | | **42,395** | 40,827 |
| **Attributable to:** | | | |
| Owners of the parent | | **42,323** | 40,469 |
| Non-controlling interest | | **72** | 358 |
| | | **42,395** | 40,827 |
| **Earnings per share (cents)** | | | |
| Basic earnings per share | 8 | **36.5** | 35.1 |
| Diluted earnings per share | 8 | **36.1** | 34.9 |

# Consolidated Statement of Other Comprehensive Income

| (in thousands of US Dollars) | Notes | Year ended 31 March 2010 | Year ended 31 March 2009 |
|---|---|---|---|
| **Profit for the year** | | **42,395** | 40,827 |
| Revaluation of freehold buildings | | **–** | 300 |
| Available-for-sale securities losses taken to equity | | **–** | 571 |
| Movement in fair value of available-for-sale securities | 13 | **1,181** | – |
| Exchange differences on translating foreign operations | | **3,991** | (5,286) |
| Change in fair value of financial derivatives | | **773** | (5,900) |
| Total comprehensive income for the period | | **48,340** | 30,512 |
| Attributable to: | | | |
| **Attributable to owners of Eros International Plc** | | **48,268** | 30,154 |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Statement of Consolidated Financial Position
As at 31 March 2010

| (in thousands of US Dollars) | Note | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **5,433** | 5,663 |
| Goodwill | 10 | **1,878** | 1,878 |
| Intangible assets – trade name | 10 | **14,000** | 14,000 |
| Intangible assets – content | 11 | **349,228** | 311,772 |
| Intangible assets – others | 12 | **692** | 933 |
| Available-for-sale investments | 13 | **26,581** | 25,170 |
| Deferred tax assets | 7 | **111** | 212 |
| | | **397,923** | 359,628 |
| **Current assets** | | | |
| Inventories | 15 | **1,794** | 2,008 |
| Trade and other receivables | 16 | **54,795** | 55,930 |
| Current tax receivable | | **3,452** | 2,122 |
| Cash and cash equivalents | 18 | **87,613** | 55,812 |
| | | **147,654** | 115,872 |
| **Total assets** | | **545,577** | 475,500 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **28,397** | 19,570 |
| Short-term borrowings | 19 | **40,478** | 61,379 |
| Derivative financial instruments | 22 | **5,128** | 5,900 |
| Current tax payable | | **363** | 443 |
| | | **74,366** | 87,292 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 19 | **151,441** | 123,866 |
| Deferred tax | 7 | **12,581** | 6,916 |
| | | **164,022** | 130,782 |
| **Total liabilities** | | **238,388** | 218,074 |
| **Net assets** | | **307,189** | 257,426 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 21 | **21,349** | 21,210 |
| Share premium | | **128,296** | 127,321 |
| Translation reserve | | **(270)** | (4,261) |
| Reverse acquisition reserve | | **(22,752)** | (22,752) |
| Other reserves | | **6,817** | 4,863 |
| Retained earnings | | **171,549** | 128,917 |
| | | **304,989** | 255,298 |
| Non-controlling interest | | **2,200** | 2,128 |
| **Total equity** | | **307,189** | 257,426 |

The consolidated financial statements were approved by the Board on 26 July 2010 and are signed on its behalf by:

**Kishore Lulla**
Executive Chairman

**Jyoti Deshpande**
Chief Executive Officer

Company registration number 116107C.

The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Statement of Cash Flows
## For the year ended 31 March 2010

| (in thousands of US Dollars) | Note | Year ended 31 March 2010 | 2009 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | **49,547** | 48,398 |
| Adjustments for: | | | |
| Depreciation | 9 | **1,030** | 1,196 |
| Share-based payment | 3 | **309** | 1,130 |
| Amortisation of intangibles | | **57,464** | 57,099 |
| Non-cash items | | **1,114** | 81 |
| Net finance charge | 4 | **2,309** | 1,261 |
| Impairment of available-for-sale financial assets | | **6** | 1,347 |
| Movement in trade and other receivables | | **5,049** | (32,184) |
| Movement in inventories | | **335** | 37 |
| Movement in trade payables | | **3,990** | 2,141 |
| Loss on sale of property, plant and equipment | | **110** | – |
| Cash generated from operations | | **121,263** | 80,506 |
| Interest paid | | **(9,757)** | (8,000) |
| Income taxes paid | | **(3,230)** | (4,319) |
| **Net cash from operating activities** | | **108,276** | 68,187 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(598)** | (1,775) |
| Purchase of intangible film rights and related contents | | **(81,464)** | (129,695) |
| Purchase of intangible assets others | | **(58)** | (226) |
| Sale/(Purchase) of available-for-sale financial assets | | **2** | (13,220) |
| Interest received | | **1,387** | 1,785 |
| Net cash used in investing activities | | **(80,731)** | (143,131) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | **–** | 19 |
| (Repayment)/Proceeds of short-term borrowings | | **(20,901)** | 12,179 |
| Proceeds from long-term borrowings | | **24,186** | 33,353 |
| Net cash from financing activities | | **3,285** | 45,551 |
| Net increase/(decrease) in cash and cash equivalents | | **30,830** | (29,393) |
| Effects of exchange rate changes on cash and cash equivalents | | **971** | (2,496) |
| Cash and cash equivalents at beginning of year | | **55,812** | 87,701 |
| **Cash and cash equivalents at end of year** | 18 | **87,613** | 55,812 |

The accompanying principal accounting policies and notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity
## For the year ended 31 March 2010

| (in thousands of US Dollars) | Share capital | Share premium account | Translation reserve | Retained earnings | Reverse acquisition reserve | Other reserves | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 March 2009 | 21,210 | 127,321 | (4,261) | 128,917 | (22,752) | 4,863 | 255,298 | 2,128 | 257,426 |
| Revaluation of Investments | – | – | – | – | – | 1,181 | 1,181 | – | 1,181 |
| Hedging reserves | – | – | – | – | – | 773 | 773 | – | 773 |
| Currency translation | – | – | 3,991 | – | – | – | 3,991 | – | 3,991 |
| **Net income recognised directly in equity** | – | – | 3,991 | – | – | 1,954 | 5,945 | – | 5,945 |
| Profit for the year | – | – | – | 42,323 | – | – | 42,323 | 72 | 42,395 |
| **Total comprehensive income for the period** | – | – | 3,991 | 42,323 | – | 1,954 | 48,268 | 72 | 48,340 |
| Share-issued | 139 | 975 | – | – | – | – | 1,114 | – | 1,114 |
| Share-based payment | – | – | – | 309 | – | – | 309 | – | 309 |
| **Balance at 31 March 2010** | **21,349** | **128,296** | **(270)** | **171,549** | **(22,752)** | **6,817** | **304,989** | **2,200** | **307,189** |
| | | | | | | | | | |
| Balance at 31 March 2008 | 20,858 | 127,321 | 1,025 | 87,318 | (22,752) | (571) | 213,199 | 1,751 | 214,950 |
| Available-for-sale securities losses taken to equity | – | – | – | – | | 571 | 571 | – | 571 |
| Revaluation of freehold buildings | – | – | – | – | – | 300 | 300 | – | 300 |
| Hedging reserves | – | – | – | – | – | (5,900) | (5,900) | – | (5,900) |
| Currency translation | – | – | (5,286) | – | – | – | (5,286) | – | (5,286) |
| **Net income recognised directly in equity** | – | – | (5,286) | – | – | (5,029) | (10,315) | – | (10,315) |
| Profit for the year | – | – | – | 40,469 | – | – | 40,469 | 358 | 40,827 |
| **Total comprehensive income for the period** | – | – | (5,286) | 40,469 | – | (5,029) | 30,154 | 358 | 30,512 |
| Share-based payment | – | – | – | 1,130 | – | – | 1,130 | – | 1,130 |
| Shares issued to minority | – | – | – | – | – | – | – | 19 | 19 |
| Shares issued on acquisition | 352 | – | – | – | – | 10,463 | 10,815 | – | 10,815 |
| **Balance at 31 March 2009** | **21,210** | **127,321** | **(4,261)** | **128,917** | **(22,752)** | **4,863** | **255,298** | **2,128** | **257,426** |

# Principal Accounting Policies

**1 Nature of operations, general information and basis of preparation**
Eros International Plc ("Eros") and its subsidiaries' (the "Group") principal activities include the distribution and production of Indian films and related content which have been discussed earlier in the Operating and Financial Review. Eros International Plc is the Group's ultimate Parent Company. It is incorporated and domiciled in the Isle of Man. The address of Eros International Plc's registered office is 15–19 Athol Street, Douglas, Isle of Man IM1 1LB. Eros International Plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The consolidated financial statements of the Group and the Group's interest in jointly controlled entities have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Isle of Man Companies Acts 1931 to 2004. The financial statements have been prepared under the historical cost convention on a going concern basis, with the exception of certain non-current assets and financial derivatives both of which are carried at fair value in accordance with the Group's accounting policies.

The Group's accounting policies as set out below have been applied consistently throughout the Group to all the periods presented, unless otherwise stated, except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments. The presentational currency of the Group is US Dollars as this is the currency that the majority of its transactions are denominated in.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but requires additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, although some items that were recognised directly in equity are now recognised in other comprehensive income, for example exchange differences on translation of foreign operations. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a "Statement of Comprehensive Income". In accordance with the new standard, the presentation of the "Statement of Changes in Equity" has been varied. As a result, the Group has elected to present the "Statement of Comprehensive Income" as two statements: the "Consolidated Income Statement" and the "Consolidated Statement of Other Comprehensive Income".

IFRS 8 Operating Segments, effective 1 January 2009, requires disclosure of information about the Group's operating segments and also about the Group's businesses and the geographical area in which it operates.

The financial statements for the year ended 31 March 2010 were approved for issue by the Board of Directors on 26 July 2010.

**2 Going concern**
The Directors acknowledge the latest guidance issued by the Financial Reporting Council in October 2009: "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009".

The Group's activities, together with the factors likely to affect its future development are set out in the Business and Financial Review. The Group meets its day to day working capital requirements and funds its investment on content through a variety of banking arrangements and cash generated from operations. Under the terms of the banking arrangements the Group is able to draw down in the local currencies of its operating businesses. The amounts drawn by currency at 31 March 2010 are shown in note 22 to the accounts.

The facilities are subject to individual covenants which vary but include provisions such as a fixed charge over certain assets, total available facilities against balance sheet value, net debt against EBITDA, and a negative pledge. The Group is now cash-generating and is in full compliance with its existing bank facility covenant arrangements. As at 31 March 2010 the Group had US$87.6 million of cash, US$104.3million of net debt and undrawn amounts under the facility of US$24.0 million.

As explained in the risks section, the Group is exposed to uncertainties arising from the economic climate and also in the markets in which it operates. Market conditions could lead to lower than anticipated demand for the Group's products and services and exchange rate volatility could also impact reported performance. The Directors have considered the impact of these and other uncertainties and factored them into their financial forecasts and assessment of covenant headroom. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance (and available mitigating actions), show that the Group will be able to operate within the expected limits of the facility and provide headroom against the covenants for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

**3 Summary of accounting policies**

***3.1 Overall considerations***
The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. Financial statements are subject to the application of significant accounting estimates and judgements. These are summarised in note 27.

# Principal Accounting Policies continued

**3 Summary of accounting policies** continued

***3.2 Basis of consolidation***
In respect of the combination of Eros International Plc and Eros Worldwide FZ LLC the principles of reverse acquisition accounting have been applied with Eros Worldwide FZ LLC identified as the acquirer. Under the principles of reverse acquisitions, the cost of the acquisition is measured at the fair value of the notional number of equity instruments that would have been issued by the subsidiaries to the parent in order to provide the resulting 100% ownership in Eros Worldwide FZ LLC. The net assets of the parent are restated to fair value in the consolidated financial statements and the goodwill (if any) is calculated based on the difference between the cost of acquisition and the restated net assets of the parent.

The share capital and premium reported in the consolidated balance sheet is required to be that of the legal parent. However, it is also a requirement that the total of the issued equity instruments of the consolidated Group should reflect that of the legal subsidiaries plus the cost of the acquisition. To achieve this, a reverse acquisition reserve is created, being the difference between the required total of the Group's equity instruments and the reported equity of the legal parent. The reported consolidated retained earnings are the consolidated retained earnings of the legal subsidiaries plus those of the legal parent subsequent to the reverse combination, plus the retained earnings of Eros Worldwide FZ LLC at the date of the business combination.

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities taking account of the provisions of IAS 27 Consolidated and Separate Financial Statements. Due to the nature of the Group's activities, whereby it will enter in co-productions and other arrangements in order to source film content which sometimes involves the set up of special purpose entities for individual film productions, it evaluates these arrangements also in the context of SIC-12 Consolidation – Special Purpose Entities and consolidates such entities where appropriate. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Business combinations are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

***3.3 Segment reporting***
The Group adopted IFRS 8 Operating Segments during the year. IFRS 8 requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive. Provided certain quantitative and qualitative criteria are fulfilled, IFRS 8 permits the aggregation of these components into reportable segments for the purposes of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the Directors have had regard to the similar economic characteristics of certain operating segments, their similar client base, the similar nature of their products or services and their long-term margins, amongst other factors. As a result of this assessment, the Directors concluded that the reportable business segments identified under the previous standard (IAS 14 Segmental Reporting) remain appropriate under IFRS 8.

As of 31 March 2010, Eros had three operating segments engaging in the activities described below:

- Theatrical.
- Television syndication.
- Digital and home entertainment.

Eros has identified four geographic areas, consisting of its main geographic areas (India, US and Europe), together with the rest of the world.

Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated.

## 3 Summary of accounting policies continued

### *3.4 Revenue*
The Group produces and distributes films and other content. Revenue from production and distribution activities is measured by reference to the fair value of consideration received or receivable from customers. Interest income is reported on an accruals basis Dividends received are recognised at the time of their distribution.

Revenue arising from the distribution or other exploitation by the Group of films and other content produced by third parties or by the Group, is recognised, net of sales taxes, when persuasive evidence of an arrangement exists, the fees are fixed or determinable, the product or service is available for delivery and collectability is reasonably assured. The Group considers the terms of each arrangement to determine the appropriate accounting treatment.

The following additional criteria apply in respect of these revenue streams of the Group's specific operating segments:

- Theatrical – Revenue is stated at the minimum guarantee due, where applicable, plus the declared Group's share of box office receipts in excess of the minimum guarantee.
- TV syndication – License fees received in advance which do not meet all of the above criteria are included in deferred income until the above criteria is met.
- Digital and home entertainment – DVD, CD and video revenue is recognised on the date the licence revenue is contracted or declared. Provision is made for returns where applicable. Other revenues include visual effects, production and other fees for services rendered by the Group and overhead recharges, which are recognised in the period in which they are earned. Digital and other new media revenues are recognised at the earlier of when the content is accessed or declared.

Interest income is reported on an accruals basis. Dividends received are recognised at the time of their distribution.

### *3.5 Goodwill*
Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

### *3.6 Intangible assets*
Non-Current Intangible assets acquired by the Group are stated at cost less accumulated amortisation less impairment except those acquired as part of a business combination, which are shown at fair value at the date of acquisition less accumulated amortisation. The trade name is considered to have an indefinite life and is held at cost less impairment.

#### Content
Investments in films and associated rights, including acquired rights and distribution advances in respect of completed films, are stated at cost less amortisation less provision for impairment. Costs include production costs, overhead and capitalised interest costs net of any amounts received from third party investors. A charge is made to write down the cost of completed rights over the estimated useful lives except where the asset is not yet available for exploitation. The average life of assets has been reviewed and has been extended to the lesser of 10 years or the remaining life of the content rights. The amortisation charge is recognised in the income statement within cost of sales. In the event that the useful life had remained at five years as estimated previously, the amortisation charge in the current year would have been US$5.1 million higher.

#### Trade name
"Eros" the trade name is considered to have an indefinite economic life because of the institutional nature of the corporate brand name, its proven ability to maintain market leadership and the Group's commitment to develop and enhance its value. The carrying value is reviewed at least annually for impairment and adjusted to recoverable amount if required.

#### Subsequent expenditure
Expenditure on capitalised intangible assets subsequent to the original expenditure is included only when it increases the future economic benefits embodied in the specific asset to which it relates.

#### Internally generated assets
An internally generated intangible asset arising from the Group's development activities that is expected to be completed is recognised only if all the following criteria are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost can be measured reliably.

# Principal Accounting Policies continued

**3 Summary of accounting policies** continued

When these criteria are met and there are appropriate resources to complete development, the expenditure is capitalised at cost. Where these criteria are not met development expenditure is recognised as an expense in the period in which it is incurred. Internally generated intangible assets are amortised over their useful economic life from the date that they start generating future economic benefits on a straight-line basis over three years. The amortisation is recognised within cost of sales.

***3.7 Impairment testing of goodwill, other intangible assets and property, plant and equipment***

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. In accordance with IAS 36 Impairment of Assets film content costs are stated at the lower of unamortised cost or estimated fair value on a catalogue basis as the nature of the Group's business, the contracts it has in place and the markets it operates in do not yet make an ongoing individual film evaluation feasible with reasonable certainty. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

***3.8 Property, plant and equipment***

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Land and freehold buildings are shown at fair value, based on periodic but at least triannual valuations by an external independent valuer, less subsequent depreciation for freehold buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to other reserves in shareholders equity. Decreases that offset previous increases are charged against other reserves.

Depreciation is provided to write off the cost of all property, plant and equipment to their residual value over their expected useful lives calculated on the historical cost of the assets at the following rates:

| | Rate of depreciation % straight-line per annum |
|---|---|
| Land and building | 2–10 |
| Furniture, fixtures and equipments | 15–20 |
| Vehicles, plant and machinery | 15–40 |

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

***3.9 Inventories***

Inventories are valued at the lower of cost and net realisable value. Cost is defined as follows:

- Finished goods – at purchase price, including appropriate labour costs and other overheads.
- Raw materials – at purchase price.

Purchase price is assigned using a weighted average basis. Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion.

***3.10 Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments which are readily convertible into known amounts of cash and are subject to insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## 3 Summary of accounting policies continued

### *3.11 Borrowings*
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement within finance costs over the period of the borrowings using the effective interest method. Finance costs in respect of film productions and other assets which take a substantial period of time to get ready for use or exploitation are capitalised as part of the asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### *3.12 Financial assets*
Financial assets are divided into the following categories:

- Loans and receivables.
- Available-for-sale financial assets.

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs. Where the range of values arrived at do not allow a fair value to be stated with reasonable certainty the financial assets were stated at cost.

#### Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

#### Available-for-sale financial assets
Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

An assessment for impairment is undertaken at least at each balance sheet date.

# Principal Accounting Policies continued

**3 Summary of accounting policies** continued
A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

***3.13 Financial liabilities***
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires. Changes in liabilities' fair value that are reported in profit and loss are included in the income statement within finance costs or finance income.

***3.14 Derivative financial instruments and hedging***
The Group uses derivative financial instruments to reduce its exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for financial trading purposes.

Derivative financial instruments are classified as held-for-trading and recognised in the balance sheet at fair value. Derivatives designated as hedging instruments are classified on inception as cash flow hedges, net investment hedges or fair value hedges.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in equity, to the extent that they are deemed effective. Ineffective portions are immediately recognised in the income statement. When the hedged item affects profit or loss then the amounts deferred in equity are recycled to the income statement.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are immediately recognised in the income statement.

***3.15 Provisions***
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is more likely than not that an outflow of resources will be required to settle the obligations. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date and are discounted to present value where the effect is material.

***3.16 Leases***
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under such leases are charged to the income statement on a straight-line basis over the period of the lease.

***3.17 Taxation***
Taxation on profit and loss comprises current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date along with any adjustment relating to tax payable in previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: the initial recognition of goodwill, of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse. Deferred income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled in the appropriate territory.

***3.18 Employee benefits***
The Group operates defined contribution pension plans, healthcare and insurance plans on behalf of its employees. The amounts due are all expensed as they fall due.

**3 Summary of accounting policies** continued

In accordance with IFRS 2 Share-based Payments, the fair value of shares or options granted is recognised as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the recipient becomes unconditionally entitled to payment unless forfeited or surrendered.

The fair value of share options granted is measured using the Black-Scholes model, each taking into account the terms and conditions upon which the grants are made. The amount recognised as an expense is adjusted to reflect the best available estimate of the number of options that are expected to become exercisable. None of the Group plans feature any options for cash settlements.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares is allocated to share capital with any excess being recorded as additional paid in capital.

***3.19 Foreign currencies***

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of changes in equity to the extent that they relate to a gain or loss on that non-monetary item, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the “translation reserve” in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

Deferred income tax is recognised in respect of overseas subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

***3.20 Equity***

Equity comprises the following components:

- Share capital – this represents the nominal value of equity shares.
- Share premium – this represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- Translation reserve – this represents the differences arising from translation of investments in overseas subsidiaries.
- Other reserves – this represents amounts arising from the changes in fair value of available-for-sale financial assets, property revaluations, merger reserve and derivative financial instruments.
- Reverse acquisition reserve – this represents the difference between the required total of the Group’s equity instruments and the reported equity of the legal parent.
- Non-controlling interests – this represents amounts attributable to minority interests as a result of their interests in subsidiary undertakings.

# Consolidated Notes to the Financial Statements

## For the year ended 31 March 2010

### 1 Business segmental data

Management currently identifies the Group's three service lines as operating segments. These operating segments are monitored and strategic decisions are made on the basis of segment operating results. Revenues are from external customers only and generated from three principal business activities: theatrical, television syndication and digital and home entertainment sales.

Segmental earnings correspond to earnings before interest, tax, depreciation and amortisation ("EBITDA") of each business stream. As a result, amortisation, depreciation and finance charges have not been allocated to any one business stream.

Segment information can be analysed as follows for the reporting periods under review:

***Operating segmental reporting***

| | **Year ended 31 March 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Theatrical US$'000** | **Television syndication US$'000** | **Digital and home entertainment US$'000** | **Holding and corporate US$'000** | **Common costs US$'000** | **Total US$'000** |
| Revenues | **50,216** | **52,919** | **46,594** | **–** | **–** | **149,729** |
| Cost of sales (excluding amortisation) | **(14,395)** | **(3,839)** | **(6,012)** | **–** | **–** | **(24,246)** |
| Gross profit (excluding amortisation) | **35,821** | **49,080** | **40,582** | **–** | **–** | **125,483** |
| Administrative expenses (excluding depreciation) | **(3,606)** | **(3,801)** | **(3,347)** | **(4,373)** | **–** | **(15,127)** |
| **EBITDA** | **32,215** | **45,279** | **37,235** | **(4,373)** | **–** | **110,356** |
| Depreciation | **–** | **–** | **–** | **–** | **(1,030)** | **(1,030)** |
| Amortisation | | | | | **(57,464)** | **(57,464)** |
| Net finance charges | | | | | **(2,309)** | **(2,309)** |
| Impairment of available-for-sale financial assets | | | | | **(6)** | **(6)** |
| Profit before tax | | | | | | **49,547** |

| | Year ended 31 March 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Theatrical US$'000 | Television syndication US$'000 | Digital and home entertainment US$'000 | Holding and corporate US$'000 | Common costs US$'000 | Total US$'000 |
| Revenues | 46,334 | 64,036 | 46,176 | – | 151 | 156,697 |
| Cost of sales (excluding amortisation) | (15,815) | (4,522) | (7,754) | – | – | (28,091) |
| Gross profit (excluding amortisation) | 30,519 | 59,514 | 38,422 | – | 151 | 128,606 |
| Administrative expenses (excluding depreciation) | (4,421) | (6,111) | (4,406) | (4,367) | – | (19,305) |
| **EBITDA** | **26,098** | **53,403** | **34,016** | **(4,367)** | **151** | **109,301** |
| Depreciation | – | – | – | – | (1,196) | (1,196) |
| Amortisation | | | | | (57,099) | (57,099) |
| Net finance charges | | | | | (1,261) | (1,261) |
| Impairment of available-for-sale financial assets | | | | | (1,347) | (1,347) |
| Profit before tax | | | | | | 48,398 |

The breakdown of operational assets and liabilities and capital expenditure by segment has not been shown as it can only be provided as an arbitrary breakdown.

There were no significant non-cash expenses during the year except the impairment, loss on sale of assets, share-based incentives, depreciation and amortisation disclosed above and a share-based payment charge of 2010: US$309,000 (2009: US$1,130,000). No customers accounted for more than 10% of the Group's revenues.

***Geographic reporting***

Eros has identified four geographic areas consisting of its three main geographic markets (India, North America, Europe) as well as the rest of the world. Information by geographic area is the second level of segmental data. Revenues are presented based on the customers' location.

### 1 Business segmental data continued

| | Year ended 31 March 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| India | **96,221** | 99,316 |
| Europe | **19,420** | 22,796 |
| North America | **8,094** | 8,907 |
| Rest of the world | **25,994** | 25,678 |
| | **149,729** | 156,697 |

| | 31 March 2010 | | | |
|---|---|---|---|---|
| | **India US$'000** | **North America US$'000** | **Europe US$'000** | **Rest of the world US$'000** |
| **Segment assets** | **207,190** | **1,739** | **95,644** | **241,004** |

| | 31 March 2009 | | | |
|---|---|---|---|---|
| | India US$'000 | North America US$'000 | Europe US$'000 | Rest of the world US$'000 |
| **Segment assets** | 210,629 | 1,807 | 62,364 | 202,129 |

### 2 Additional information on administrative expenses

Auditors' remuneration:

| | Year ended 31 March 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Audit of the Group's annual accounts pursuant to legislation | **27** | 22 |
| Audit of Company's subsidiaries pursuant to legislation | **313** | 255 |
| Non-audit services: | | |
| Other services | **6** | 5 |
| Services In connection with Indian IPO | **102** | – |
| Tax compliance and advisory services | **38** | 12 |

Profit before tax is arrived at after the following being charged/(credited) to the income statement:

| | Year ended 31 March 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **1,030** | 1,196 |
| Loss on sale of property, plant and equipment | **110** | – |
| Amortisation | **57,464** | 57,099 |
| Operating lease rentals | **2,231** | 1,806 |
| Exchange movements | **(408)** | (17) |

### 3 Personnel costs and average employee numbers

| | Year ended 31 March 2010 | 2009 |
|---|---|---|
| Annual average number of full time equivalent employees | **395** | 315 |
| | **US$'000** | US$'000 |
| Salaries | **9,426** | 8,401 |
| Social security and other employment charges | **609** | 562 |
| **Wages and expenses** | **10,015** | 8,963 |
| Share-based compensation | **309** | 1,130 |
| Pension charges | **29** | 57 |
| **Personnel costs** | **10,353** | 10,150 |

Directors' remuneration, which corresponds to key management, is disclosed within the remuneration report. In addition US$226,000 (2009: US$776,000) of the share-based compensation charge related to key management.

# Consolidated Notes to the Financial Statements continued

For the year ended 31 March 2010

### 4 Finance charges and income

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Interest expense on borrowings | **8,962** | 8,006 |
| Loss on financial instruments on measurement to fair value | **176** | 70 |
| Reclassification of gains previously recognised in other comprehensive income | **3,086** | 590 |
| Capitalised interest | **(8,528)** | (5,555) |
| | **3,696** | 3,111 |
| Less: interest received | **(1,387)** | (1,850) |
| | **2,309** | 1,261 |

The capitalisation rate of interest was 7.2% (2009: 5.7%).

### 5 Income tax expense

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Current tax expense** | **2,290** | 2,706 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **4,862** | 4,865 |
| **Provision for income taxes** | **7,152** | 7,571 |

### 6 Reconciliation of tax charge

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Results for the year** | **49,547** | 48,398 |
| Isle of Man standard tax rate | **0%** | 0% |
| **Theoretical provision for income taxes based on Isle of Man standard tax rate** | **–** | – |
| Reconciliation of the theoretical and effective provision for current income taxes: | | |
| Differences in tax rates | **1,671** | 2,755 |
| Expenses not deductible for tax purposes | **–** | 76 |
| Utilisation of tax losses | **–** | (49) |
| Other temporary differences | **–** | (186) |
| Adjustment in respect of prior periods | **81** | 56 |
| Foreign tax | **538** | 54 |
| Effective provision for current income taxes | **2,290** | 2,706 |
| Deferred Tax | **4,862** | 4,865 |
| | **7,152** | 7,571 |

### 7 Changes in deferred tax assets and liabilities

Changes in deferred tax assets and liabilities.

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Opening balance of deferred tax liabilities** | **(6,704)** | (2,635) |
| Effect on provision for income taxes | **(5,766)** | (4,069) |
| **Closing balance of deferred tax liabilities** | **(12,470)** | (6,704) |

## 7 Changes in deferred tax assets and liabilities continued

Deferred tax is calculated in full on all temporary differences under the liability method using the local tax rate of the country in which the timing difference occurs. Movements in specific deferred tax assets and liabilities during the year are shown below:

| | Other temporary differences US$'000 |
|---|---|
| At 31 March 2009 | (6,704) |
| Foreign exchange translation | (904) |
| Recognised in the income statement | (4,862) |
| **At 31 March 2010** | **(12,470)** |

Components of deferred tax assets and liabilities.

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Deferred tax assets** | | |
| Tax losses | **111** | 212 |
| Other | **–** | – |
| **Deferred tax liabilities** | | |
| Other | **(12,581)** | (6,916) |
| **Deferred tax (liabilities)/assets** | **(12,470)** | (6,704) |

The deferred tax assets have been recognised on the basis that there is sufficient certainty of profitability to utilise the available losses. "Other" deferred tax liabilities principally comprise temporary timing differences on investments in film content within India.

## 8 Earnings per share

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Basic** | **Diluted** | Basic | Diluted |
| **Earnings** (in thousands of US Dollars) | | | | |
| Earnings attributable to the equity holders of the parent | **42,323** | **42,323** | 40,469 | 40,469 |
| Potential dilutive effect related to share-based compensation scheme in subsidiary undertaking | **–** | **(412)** | – | – |
| Adjusted earnings attributable to equity holders of the parent | **42,323** | **41,911** | – | – |
| **Number of shares** (in thousands) | | | | |
| Weighted average number of shares | **115,834** | **115,834** | 115,234 | 115,234 |
| Potential dilutive effect related to share-based compensation scheme | **–** | **187** | – | 838 |
| Adjusted weighted average number of shares | **115,834** | **116,021** | 115,234 | 116,072 |
| **Earnings per share** (in US cents) | | | | |
| Earnings attributable to the equity holders of the parent per share | **36.5** | **36.1** | 35.1 | 34.9 |

## 9 Property, plant and equipment

| Year ended 31 March 2010 | Land and buildings US$'000 | Furniture, fittings and equipment US$'000 | Vehicles US$'000 | Plant and machinery US$'000 | **Total US$'000** |
|---|---|---|---|---|---|
| Opening net book amount | 2,033 | 1,052 | 692 | 1,886 | **5,663** |
| Exchange differences | 15 | 102 | 57 | 223 | **397** |
| Additions | 291 | 109 | 93 | 105 | **598** |
| Disposals | – | (104) | (48) | (43) | **(195)** |
| Depreciation charge | (68) | (147) | (200) | (615) | **(1,030)** |
| **Closing net book amount** | 2,271 | 1,012 | 594 | 1,556 | **5,433** |
| **At 31 March 2010** | | | | | |
| Cost or valuation | 2,712 | 2,102 | 1,386 | 4,865 | **11,065** |
| Accumulated depreciation | (441) | (1,090) | (792) | (3,309) | **(5,632)** |
| **Net book amount** | 2,271 | 1,012 | 594 | 1,556 | **5,433** |

# Consolidated Notes to the Financial Statements continued

For the year ended 31 March 2010

### 9 Property, plant and equipment continued

| Year ended 31 March 2009 | Land and buildings US$'000 | Furniture, fittings and equipment US$'000 | Vehicles US$'000 | Plant and machinery US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Opening net book amount | 1,811 | 1,202 | 907 | 1,610 | 5,530 |
| Exchange differences | (32) | (166) | (194) | (354) | (746) |
| Revaluation | 300 | – | – | – | 300 |
| Additions | – | 207 | 225 | 1,353 | 1,785 |
| Disposals | – | (10) | – | – | (10) |
| Depreciation charge | (46) | (181) | (246) | (723) | (1,196) |
| **Closing net book amount** | 2,033 | 1,052 | 692 | 1,886 | 5,663 |
| | | | | | |
| **At 31 March 2009** | | | | | |
| Cost or valuation | 2,406 | 1,995 | 1,284 | 4,580 | 10,265 |
| Accumulated depreciation | (373) | (943) | (592) | (2,694) | (4,602) |
| **Net book amount** | 2,033 | 1,052 | 692 | 1,886 | 5,663 |

Land and buildings were revalued by an independent valuer using market values as of November 2008. The revaluation gave rise to a US$300,000 upward revision which was taken to equity in the year ended 31 March 2009. The carrying amount that would have been recognised if carried at cost would be US$1,733,000.

### 10 Goodwill and trade name

| | As of 31 March 2009 US$'000 | Additions US$'000 | **As of 31 March 2010 US$'000** |
|---|---|---|---|
| Eros Network Limited – goodwill | 1,878 | – | **1,878** |
| Trade names | 14,000 | – | **14,000** |
| **Net book value at 31 March 2010** | 15,878 | – | **15,878** |

| | As of 31 March 2008 US$'000 | Business combinations US$'000 | As of 31 March 2009 US$'000 |
|---|---|---|---|
| Eros Network Limited – goodwill | 1,878 | – | 1,878 |
| Trade name | 14,000 | – | 14,000 |
| Net book value at 31 March 2009 | 15,878 | – | 15,878 |

***Goodwill and trade name impairment testing***

In accordance with Eros accounting policy, the carrying value of goodwill and the trade name are reviewed annually for impairment. The 2010 impairment review was undertaken as at 31 March 2010.

In the absence of any identified indicator of impairment, the test was performed on the basis of internal valuation. After this test Eros' management reached the conclusion that the recoverable values exceeded their carrying values. The recoverable amounts were determined on value in use calculations covering a two year detailed forecast followed by an extrapolation at the rates stated below.

"Eros" and the associated logos comprise the trade name of the Group.

The growth rate is based on reasonable estimates of the market growth rates, based on previous experience of the market in which the Group operates. Management has assumed that the profit margin will remain stable and in line with past experience. Eros' management believe that this is the best available input for forecasting. The growth rate used is 15%. An appropriate discount rate of 7.6% (2009: 7.6%) representing the Group's weighted average cost of capital has been applied to the projections.

## 11 Intangible content assets

| | 31 March 2010 | | |
|---|---|---|---|
| | **Gross content assets US$'000** | **Accumulated amortisation US$'000** | **Content assets US$'000** |
| Film productions | **7,878** | **–** | **7,878** |
| Film and content rights | **379,085** | **160,841** | **218,244** |
| Content advances | **123,106** | **–** | **123,106** |
| **Non-current content assets** | **510,069** | **160,841** | **349,228** |

| | 31 March 2009 | | |
|---|---|---|---|
| | Gross content assets US$'000 | Accumulated amortisation US$'000 | Content assets US$'000 |
| Film productions | 9,918 | – | 9,918 |
| Film and content rights | 258,529 | 103,685 | 154,844 |
| Content advances | 147,010 | – | 147,010 |
| Non-current content assets | 415,457 | 103,685 | 311,772 |

Changes in the main content assets are as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Film productions** | | |
| **Opening balance** | **9,918** | 8,118 |
| Additions | **1,481** | 7,619 |
| Transfer to film and content rights | **(3,521)** | (5,819) |
| **Closing balance** | **7,878** | 9,918 |

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Content advances** | | |
| **Opening balance** | **147,010** | 114,879 |
| Additions | **79,393** | 132,872 |
| Changes in foreign currency translation | **9,009** | (5,243) |
| Transfer to film and content rights | **(112,306)** | (95,498) |
| **Closing balance** | **123,106** | 147,010 |

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Film and content rights** | | |
| **Opening balance** | **154,844** | 116,241 |
| Amortisation | **(57,156)** | (56,801) |
| Business combinations | **–** | – |
| Changes in foreign currency translation | **4,729** | (5,913) |
| Transfer from other content assets | **115,827** | 101,317 |
| **Closing balance** | **218,244** | 154,844 |

# Consolidated Notes to the Financial Statements continued

For the year ended 31 March 2010

### 12 Other intangible assets

| | 31 March 2010 | | |
|---|---|---|---|
| | **Gross US$'000** | **Accumulated amortisation US$'000** | **Net US$'000** |
| Internally developed software | **1,690** | **(998)** | **692** |

| | 31 March 2009 | | |
|---|---|---|---|
| | Gross US$'000 | Accumulated amortisation US$'000 | Net US$'000 |
| Internally developed software | 1,623 | (690) | 933 |

The changes in other intangible assets are as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| **Opening balance** | **933** | 1,005 |
| Additions during the year | **58** | 226 |
| Exchange movement | **9** | – |
| Amortisation | **(308)** | (298) |
| **Closing balance** | **692** | 933 |

Other intangibles comprise internally generated software used within the Group's digital and home entertainment activities.

### 13 Available-for-sale financial assets

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Listed securities | **–** | 6 |
| Triple Com Media Pvt. Limited | **1,278** | 1,570 |
| Other financial assets | **–** | 2 |
| Valuable Technologies | **14,488** | 12,777 |
| LMB Holdings Limited | **10,815** | 10,815 |
| | **26,581** | 25,170 |

The investment in Triple Com Media Pvt. Limited ("Triple Com") represents 21% share of the issued share capital of that company. Triple Com is involved in the aggregation and syndication of television and cable media rights. Having considered the Group's position in respect of Board representation, involvement in policy decision making, inputs in respect of technical know-how, material contracts between the two parties and any interchange of staff or management the Directors have concluded that they do not exert any significant influence over Triple Com. Based on the management track record and anticipated growth the Directors are still confident about the investment. However, taking account of the nature of the Company's activities and that to date it has yet to secure a major contract the Directors have reduced the carrying value to US$1,278,000 with the fair value adjustment of US$500,000 being recognised in equity after taking account of an exchange movement of US$208,000.

As disclosed in 2009 the Group had an option to acquire Acacia Investments Holdings Limited ("Acacia"), a company which was ultimately owned by a discretionary trust of which Kishore Lulla, Vijay Ahuja and Sunil Lulla are amongst the potential beneficiaries. The Company exercised the option on 11 April 2009. Acacia is a dormant holding company and owns 24% of LMB Holdings Limited which through its subsidiaries operates two satellite television channels B4U Music and B4U Movies. Having considered the Group's position in respect of Board representation, involvement in policy decision making, inputs in respect of technical know-how, material contracts between the two parties and any interchange of staff or management the Directors have concluded that they do not exert any significant influence over LMB Holdings Limited. The Board have reviewed a valuation of the business based on available information, but due to the range of potential outcomes are unable to give, with reasonable certainty, a fair value. The investment is therefore stated at cost. In exercising the option to acquire the stake in LMB Holdings Limited the Directors were able to satisfy themselves that the cost was reasonable by receiving valuations based on setting up a similar operation.

**13 Available-for-sale financial assets** continued

Eros acquired an interest in Valuable Technologies Limited ("Valuable") in April 2008. The company manages and operates a number of companies within media and entertainment, technology and infrastructure. These companies include UFO Moviez, the leading provider of Digital projection solutions for cinemas in India, Boxtech which is involved with digital movie rentals and Impact whose business is theatrical ticketing and sales data Impact. Eros owns 9% of Valuable and based on an external valuation of Valuable the Directors have recognised an uplift in the carrying value of the investment of US$1,681,000 from the cost of US$12,777,000 which has been recognised through equity.

Listed securities comprise an investment in New Medium Enterprises Inc ("NME"). Following an impairment of the carrying value in the year ended 31 March 2009 of US$1,347,000 and the suspension of the quoted market price the Directors have now impaired the remaining carrying value to US$ nil with the US$6,000 carrying value as at 31 March 2009 being recognised as an impairment loss through the income statement.

The Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. The required disclosures of fair value measurements grouped into the following levels: Level 1 fair value measurements derived from unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 fair value measurements derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and Level 3 fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. At 31 March 2010, the Group had US$15,766,000 of financial assets grouped into Level 3. The carrying value of the Group's financial instruments approximate their fair value.

**14 Operating leases**

The minimum lease rentals to be paid under non-cancellable operating leases at 31 March 2010 are as follows:

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Within one year | **1,461** | 538 |
| Within two to five years | **2,151** | 2,542 |
| | **3,612** | 3,080 |

**15 Inventories**

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Goods for resale | **1,723** | 1,912 |
| Raw materials | **71** | 96 |
| | **1,794** | 2,008 |

During the year inventory of US$1,097,582 (2009: US$856,000) was recognised in profit and loss as an expense. This includes an amount of US$ nil (2009: US$ nil) resulting from the write down of inventories. There was no reversal of previous write downs.

**16 Trade and other receivables**

| | At 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Trade accounts receivable | **49,283** | 43,147 |
| Trade accounts receivable provision | **(87)** | (292) |
| Trade accounts receivable net | **49,196** | 42,855 |
| Other receivables | **5,175** | 12,491 |
| Prepaid charges | **424** | 584 |
| **Trade accounts receivable and other** | **54,795** | 55,930 |

# Consolidated Notes to the Financial Statements continued
For the year ended 31 March 2010

## 16 Trade and other receivables continued

Some of the trade accounts receivable that have not been treated as write offs are past due as at the reporting date. The age of these financial assets past due is as follows:

| | At 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Not more than three months | **5,850** | 7,252 |
| More than three months but not more than six months | **208** | 829 |
| More than six months but not more than one year | **95** | 13 |
| More than one year | **769** | 634 |
| | **6,922** | 8,728 |

The movements in the trade receivable provisions is as follows.

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| At 1 April 2009 | **292** | 356 |
| Utilisations | **(254)** | (64) |
| Provisions | **49** | – |
| **At 31 March 2010** | **87** | 292 |

The carrying amount of trade and other receivables is considered a reasonable approximation of fair value. The Group holds collateral in respect of US$ nil (2009: US$ nil) of trade receivables.

## 17 Trade and other payables

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Trade accounts payable | **17,452** | 17,634 |
| Accruals and other payables | **9,510** | 1,078 |
| Social security and other taxes payable | **1,435** | 858 |
| | **28,397** | 19,570 |

The Group considers that the carrying amount of trade and other payables approximates their fair value.

## 18 Cash and cash equivalents

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| Cash at bank and in hand | **87,613** | 55,812 |

## 19 Borrowings and other financial liabilities

An analysis of long-term borrowings and other financial liabilities is shown in the table below:

| | Nominal interest rate % | Maturity | **31 March 2010 US$'000** | 31 March 2009 US$'000 |
|---|---|---|---|---|
| **Asset backed borrowings** | | | | |
| Term loan | BPLR +2.25% | 2009 | **–** | 4,904 |
| Term loan | BPLR +2.75% | 2012 | **4,712** | 1,689 |
| Term loan | BPLR | 2015 | **6,167** | 2,197 |
| Asset loan | 10–15% | 2011 | **100** | 257 |
| Term loan | BPLR +2.26% | 2010 | **5,559** | 12,692 |
| Term loan | BPLR +2.00% | 2010 | **4,130** | 3,643 |
| Term loan | 10–15% | 2010 | **5** | – |
| Term loan | 10–15% | 2012 | **45** | – |
| | | | **20,718** | 25,382 |
| **Unsecured borrowings** | | | | |
| US$100 million revolving facility | LIBOR +1.65% | 2012 | **100,000** | 100,000 |
| US$25 million revolving facility | LIBOR +2.35% | 2012 | **25,000** | – |
| US$20 million revolving facility | LIBOR +3.00% | 2012 | **20,000** | – |
| | | | **165,718** | 125,382 |
| Nominal value of borrowings | | | **165,718** | 125,382 |
| Cumulative effect of unamortised costs | | | **(1,487)** | (1,516) |
| Instalments due within one year | | | **(12,790)** | – |
| **Long-term borrowings** | | | **151,441** | 123,866 |

Bank prime lending rate ("BPLR") is the Indian equivalent to LIBOR. Asset backed borrowings are secured by fixed and floating charges over certain Group assets.

The US$100 million facility has been linked to a cash flow hedge whereby LIBOR is set at 3.52% until 2012. The US$100 million, US$25 million and US$20 million revolving facilities are subject to a negative pledge.

Analysis of short-term borrowings.

| | Nominal interest rate % | **31 March 2010 US$'000** | 31 March 2009 US$'000 |
|---|---|---|---|
| **Asset backed borrowings** | | | |
| Export credit and overdraft | LIBOR +1–2.5% | **27,688** | 16,379 |
| **Unsecured borrowings** | | | |
| Credit facility | LIBOR +1.5% | **–** | 45,000 |
| Instalments due within one year on long-term borrowings | | **12,790** | – |
| | | **40,478** | 61,379 |

# Consolidated Notes to the Financial Statements continued

For the year ended 31 March 2010

## 19 Borrowings and other financial liabilities continued

***Currency, maturity and nature of interest rate of the nominal value of borrowings***

| | 2010 US$'000 | % | 2009 US$'000 | % |
|---|---|---|---|---|
| **Currency** | | | | |
| US Dollar | **170,545** | 89 | 150,900 | 79 |
| Indian Rupees | **21,374** | 11 | 40,245 | 21 |
| Total | **191,919** | 100 | 191,145 | 100 |
| **Maturity** | | | | |
| Due before one year | **40,478** | 21 | 61,379 | 32 |
| Due between one and three years | **149,811** | 79 | 25,311 | 13 |
| Due between four and five years | **1,630** | – | 104,455 | 55 |
| | **191,919** | 100 | 191,145 | 100 |
| **Nature of rates** | | | | |
| Fixed interest rate | **100,000** | 52 | 100,000 | 52 |
| Floating rate | **91,919** | 48 | 91,145 | 48 |
| Total | **191,919** | 100 | 191,145 | 100 |

## 20 Share-based compensation plans

The compensation cost recognised with respect to all outstanding plans, which are all equity settled instruments, is as follows:

| | As at 31 March | |
|---|---|---|
| | **2010 US$'000** | 2009 US$'000 |
| IPO Plan | **26** | 25 |
| IPO India Plan | **283** | – |
| Management Scheme | **–** | 1,105 |
| | **309** | 1,130 |

This charge has been included in administrative costs in the income statement. The fair value per share for each grant of options and the assumptions used in the calculation are as follows:

| Scheme | IPO Plan June 2006 | Management scheme November 2007 | IPO India Plan December 2009 |
|---|---|---|---|
| Grant date | 27/06/06 | 15/10/07 | 17/12/2009 |
| Option strike price | £1.76 | £1.935 | £1.54 |
| Maturity (in years) | 10 | 5 | 5.25 |
| Expected term (in years) | 5 | 3 | 4 |
| Number of instruments granted | 187,314 | 1,078,750 | 1,729,512 |
| Share price | £1.724 | £4.330 | £.79 |
| Expected volatility | 25.0% | 5.12% | 75% |
| Risk free interest rate | 4.78% | 5.12% | 6.3% |
| Expected dividend yield | 0% | 0% | 0% |
| **Fair value of the granted option at the grant date** | **£0.626** | **£2.667** | **£2.78** |

The expected volatility has been arrived at by taking the weighted average share price movements of three peer companies as neither entities shares were listed at the date of grant.

***The IPO Plan***

The IPO Plan was provided to grant options to certain senior management involved with the initial public offering of the Company's shares on the Alternative Investment Market ("AIM"). The performance criterion attached to the options was met when the Company's shares were accepted for trading on AIM. The options vest annually in one fifth tranches from 27 June 2007.

***The Management Scheme***

Options granted under this scheme vested annually in one third tranches from 31 March 2008 and were awarded to individuals based on Remuneration Committee view and taking into account the overall Group performance. The share options granted under this scheme lapsed or were forfeited by the option holders.

## 20 Share-based compensation plans continued

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Number of shares** | **Weighted average exercise price £** | Number of shares | Weighted average exercise price £ |
| Outstanding at 1 April | **187,314** | **1.76** | 1,266,064 | 1.909 |
| Granted | **–** | **–** | – | – |
| Lapsed | **–** | **–** | (20,000) | 1.935 |
| Forfeited by the option holder | **–** | | (1,058,750) | 1.935 |
| Outstanding at 31 March | **187,314** | **1.76** | 187,314 | 1.76 |
| **Exercisable at 31 March** | **112,389** | **1.76** | 74,926 | 1.76 |

***The IPO India Plan***

The Company's subsidiary Eros International Media Limited is proposed an initial public offer of its shares, and instituted an employee share option scheme "ESOP 2009" (IPO India Plan) and eligible to employees and administered by the Compensation Committee of the Board of Directors of Eros International Media Limited. The terms and condition of the IPO India Plan is as follows:

| | 2010 | 2009 |
|---|---|---|
| | **Number of shares of Eros International Media Ltd** | Number of shares |
| **Outstanding at 1 April** | **–** | – |
| Granted during the year | **1,729,512** | – |
| Lapsed | **–** | – |
| Outstanding at 31 March | **1,729,512** | – |
| **Exercisable at 31 March** | **–** | – |

The exercise price of the options for an employee is based on factors such as seniority, tenure, criticality and performance of the employee, based on the above, the exercise price would be calculated at a discount of 0–50% on the fair share price which is derived through a valuation by an independent value, and will vest:

- 20% of the options shall vest on the completion of 12 months from the grant date.
- 20% of the options shall vest on the completion of 24 months from the grant date.
- 30% of the options shall vest on the completion of 36 months from the grant date.
- 30% of the options shall vest on the completion of 48 months from the grant date.

## 21 Issued share capital

| | Number of shares | £'000 |
|---|---|---|
| Authorised | | |
| 200,000,000 Ordinary Shares of 10p each ("Ordinary Shares") at 31 March 2010 and 31 March 2009 | 200,000,000 | 20,000 |

| Allotted, called up and fully paid | Number of shares | US$'000 |
|---|---|---|
| At 1 April 2009 | 115,277,997 | 21,210 |
| Allotment of shares on 29 June 2009 | 117,303 | 19 |
| Allotment of shares on 13 August 2009 | 738,458 | 120 |
| **As at 31 March 2010** | 116,133,758 | 21,349 |

| Allotted, called up and fully paid | Number of shares | US$'000 |
|---|---|---|
| At 1 April 2008 | 113,494,299 | 20,858 |
| Allotment of shares on 10 April 2008 | 1,783,698 | 352 |
| As at 31 March 2009 | 115,277,997 | 21,210 |

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

# Consolidated Notes to the Financial Statements continued
For the year ended 31 March 2010

**22 Financial instruments and risk management**
The Group has established objectives concerning the holding and use of financial instruments. The underlying basis of these objectives is to manage the financial risks faced by the Group, which are discussed below.

Formal policies and guidelines have been set to achieve these objectives and they are implemented using the strategies set out below. The Group does not enter into speculative arrangements or trade in financial instruments and it is the Group's policy not to enter into complex financial instruments unless there are specific identified risks for which such instruments help mitigate uncertainties.

***Management of financial risk***
Based on the operations of the Group throughout the world the Directors consider that the key financial risks that it faces are credit risk, currency risk, liquidity risk and interest rate risk. The policies adopted to deal with these risks and the strategies utilised to manage these risks by the use of financial instruments are set out below.

***Credit risk***
The Group credit risk is principally attributable to its trade receivables, advances and cash balances. As a number of the Group's trading activities require third parties to report royalties this risk is not limited to the initial agreed sale or advance amounts. The amounts shown within the balance sheet in respect of trade receivables and advances are net of allowances for doubtful debts based upon objective evidence that the Group will not be able to collect all amounts due. Trading credit risk is managed on a country by country basis by the use of credit checks on new clients and individual credit limits, where appropriate, together with regular updates on any changes in the trading partner's situation. In a number of cases trading partners will be required to make advance payments or minimum guarantee payments before delivery of any goods. The Group reviews reports received from third parties and as a matter of course reserve the right within the contracts it enters into to request an independent third party audit of the reporting.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and counterparties. The maximum exposure to credit risk is that shown within the balance sheet.

***Currency risk***
The Group operates throughout the world with significant operations in India, the British Isles, the United States of America and the United Arab Emirates. As a result it faces both translation and transaction currency risks which are principally mitigated by matching foreign currency revenues and costs wherever possible.

The Group's major revenues are denominated in US Dollars, Indian Rupees and Sterling which are matched where possible to its costs so that these act as an automatic hedge against foreign currency exchange movements.

The Group has identified that it will need to utilise hedge transactions to mitigate any risks in movements between the US Dollar and the Indian Rupee and has adopted an agreed set of principles that will be used when entering into any such transactions.

As at the balance sheet date there were no outstanding forward foreign exchange contracts. The Group adopts a policy of borrowing where appropriate in the local currency as a hedge against translation risk. The table below shows the Group's net foreign currency monetary assets and liabilities position in the main foreign currencies as at the year end:

| | **At 31 March 2010** | | |
|---|---|---|---|
| | **GBP US$'000** | **INR US$'000** | **Other US$'000** |
| Net balance | **475** | **22,828** | **64,310** |

| | At 31March 2009 | | |
|---|---|---|---|
| | GBP US$'000 | INR US$'000 | Other US$'000 |
| Net balance | 249 | 6,876 | 48,687 |

A uniform decrease of 10% in exchange rates against all foreign currencies in position as of 31 March 2010 would have a cumulated negative impact of US$2,330,253 on net income and on equity. An equal and opposite impact would be experienced in the event of an increase by a similar percentage.

## 22 Financial instruments and risk management continued

***Liquidity risk***
The Group's objective of ensuring that adequate funding is in place is achieved by management of its working capital and agreed committed bank facilities. Management of working capital takes account of film release dates and payment terms agreed with customers.

At 31 March 2010 the Group had facilities available of US$215,979,000 (2009: US$199,812,000) and therefore had net undrawn amounts of US$24,060,000 (2009: US$14,567,000) available.

***Interest rate risk***
The Board recognise the need to mitigate interest rate risk through the use of fixed and floating rates. The Group has fixed US$100 million of its borrowings by way of an interest rate swap contract which expires in August 2012, which represents 52% (2009: 52%) of the year end total Group borrowings.

A 1% increase in underlying bank rates would lead to an annual increased interest charge of US$919,000 (2009: US$911,000) an equal and opposite impact would be felt if rates fell by 1%.

Under the interest swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amount. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow of issued variable rate debt. The fair value of interest swaps, all of which are in designated hedge accounting relationships, at the reporting date is determined by discounted future cash flows using the rate curves at the reporting date and is shown below.

| | Average contract rate % | Notional principal amount US$'000 | Fair value of hedging instrument 2010 US$'000 | Fair value of hedging instrument 2009 US$'000 |
|---|---|---|---|---|
| Cash flow hedge | 3.52 | 100,000 | (5,128) | (5,900) |

The ineffective portion of changes in fair value of cash flow hedges recognised in the income statement during the year was US$176,000 (2009: US$70,000). The effective portion of changes in fair value of cash flow hedges in designated hedge accounting relationships was US$4,882,000 (2009: US$5,830,000) and has been recognised directly in equity. The interest swaps and the interest payments on the designated loan occur simultaneously and the amount deferred in equity is recognised in the income statement over the period that the floating rate interest on debt payments impact the income statement.

The Group has in place cash pooling arrangements to ensure that it minimises interest paid on short-term borrowings and overdrafts, whilst allowing net surplus funds to be invested in interest bearing accounts.

Deposit balances are invested in the money market, or with financial institutions on maturing terms from within 24 hours up to a period of three months with interest earned based on the relevant national inter-bank rates available at the time of investing.

The working capital borrowings interest rates are all based on the national inter-bank rates.

## 23 Contractual obligations and commitments
Eros' material contractual obligations are made up of contracts related to content commitments. Operating lease commitments are disclosed in note 14.

| | **Total as at 31 March 2010 US$'000** | 31 March 2010 obligations fall due in 2011 US$'000 | 2012–2015 US$'000 | After 2015 US$'000 | Total as at 31 March 2009 US$'000 |
|---|---|---|---|---|---|
| Contractual content commitments | **113,898** | 81,728 | 32,170 | – | 77,440 |

## 24 Contingent liabilities
There are no material ongoing litigations at 31 March 2010.

# Consolidated Notes to the Financial Statements continued

For the year ended 31 March 2010

**25 Related party transactions**

| | Details of transaction | Movement in year US$'000 | Asset/ (Liability) US$'000 |
|---|---|---|---|
| Arjan Lulla | President fees | 466 | – |
| 550 County Avenue | Rent | 270 | (422) |
| Deposits against family guarantee of Lulla family | Guarantee deposit and fees | 1,350 | (776) |
| Line Cross Limited | Rent | 184 | (153) |
| Lulla family | Rent | 248 | – |

550 County Avenue is a related entity as it is owned by a discretionary trust in which some of the Directors are potential beneficiaries. Rent paid to the Lulla family relates to various properties owned by them utilised by the Group in India. The leases entered into in respect of the property rented from 550 County Avenue and the Lulla family are at market rates.

During the year the Group entered into arm's length transactions with certain special purpose entities that had been incorporated to produce films within the United Kingdom. A Heffernan who is a director of various subsidiary Group entities was one of the directors of these entities.

During the year payments of US$177,000 were made to Illuminati Films Limited and fees for production services of US$778,000 were received. During the year payments of US$1,447,000 were made to Vijay Galani Movies Ltd and fees for production services of US$2,619,000 were received. During the year payments of US$5,108,330 were made to Nadiadwala Grandson Entertainment Ltd and fees for production services of US$2,395,000 were received.

Eros International Plc accrued for interest of US$250,000 on loans advanced during the year to Ayngaran International Limited its 51% subsidiary undertaking.

**26 Major consolidated entities**

| | Date | Country of incorporation | % of voting rights held |
|---|---|---|---|
| Eros Network Limited | June 2006 | UK | 100 |
| Eros International Limited | June 2006 | UK | 100 |
| Eros International USA Inc | June 2006 | USA | 100 |
| Eros Music Publishing Limited | June 2006 | UK | 100 |
| Eros Worldwide FZ LLC | June 2006 | UAE | 100 |
| Eros International Media Limited | June 2006 | India | 100 |
| Eros International Films Pvt. Limited | June 2006 | India | 100 |
| Eros Pacific Limited | June 2006 | Fiji | 100 |
| Eros Australia Pty Limited | June 2006 | Australia | 100 |
| Big Screen Entertainment Pvt. Limited | January 2007 | India | 64.6 |
| Ayngaran International Limited | October 2007 | IOM | 51 |
| Ayngaran International UK Limited | October 2007 | UK | 51 |
| Ayngaran International Meda Pvt. Limited | October 2007 | India | 51 |
| Acacia Investments Holdings Limited | April 2008 | BVI | 100 |
| EyeQube Studios Pvt. Limited | January 2008 | India | 100 |
| Ayngaran Anak Media Pvt. Limited | October 2008 | India | 51 |

All of the companies were involved with the acquisition, production and distribution of film content and associated media. All the companies are indirectly owned with the exception of Eros Network Limited and Eros Worldwide FZ LLC.

**27 Significant accounting estimates and judgements and adopted IFRS not yet applied**

Estimates and judgements are evaluated on a regular basis and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the present circumstances.

The Group makes estimates and assumptions concerning the future. These estimates, by definition, will rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are highlighted below:

***27.1 Goodwill***

The Group tests annually whether goodwill has suffered impairment, in accordance with its accounting policy. The recoverable amount of cash-generating units has been determined based on value in use calculations. These calculations require estimates to be made which are based on management assumptions however in the event that there is an unforeseen event which materially affects these assumptions it could lead to a write down of goodwill.

## 27 Significant accounting estimates and judgements and adopted IFRS not yet applied continued

### *27.2 Basis of consolidation*
In respect of the combination of undertakings coming together to form the Group judgement is required to establish which entity is the acquiring entity. In the event that it is judged that an alternative entity were to be the acquiring entity then there may be material balance sheet adjustments.

### *27.3 Intangible assets*
The Group is required to identify and assess the useful life of intangible assets and determine their income generating life. Judgement is required in determining this and then providing an amortisation rate to match this life as well as considering the recoverability or conversion of advances made in respect of securing film content or the services of talent associated with film production.

Accounting for the film content requires management's judgement as it relates to total revenues to be received and costs to be incurred throughout the life of each film or its license period, whichever is the shorter. These judgements are used to determine the amortisation of capitalised film content costs. The Group uses a stepped method of amortisation on first release film content, writing off more in year one which recognises initial income flows and then the balance over a period of up to nine years. In the case of film content that is acquired by the Group after its initial exploitation, commonly referred to as catalogue, amortisation is spread evenly over the lesser of 10 years or the licence period. Management bases the policy upon factors such as historical performance of similar films, the star power of the lead actors and actresses and once released, actual results of each film. Management regularly reviews, and revises when necessary, its estimates, which may result in a change in the rate of amortisation and/or a write down of the asset to fair value.

In the case of the trade name, stated at US$14,000,000, the Group has not amortised the assets as the marketing and brand promotion is such that the Group considers it not to have a finite income generating life.

The Group tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policy. These calculations require judgements and estimates to be made, and, as with Goodwill, in the event of an unforeseen event these judgements and assumptions would need to be revised and the value of the intangible assets could be affected. There may be instances where the useful life of an asset is shortened to reflect the uncertainty of its estimated income generating life. This is particularly the case when acquiring assets in markets that the Group has not previously exploited.

### *27.4 Impairment of available-for-sale financial assets*
The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

### *27.5 Income taxes and deferred taxation*
The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the worldwide provision for income taxes. During the normal course of business there are many transactions and calculations for which the ultimate tax determination is uncertain.

Judgement is also used when determining whether the Group should recognise a deferred tax asset, based on whether management consider there is sufficient certainty in future earnings to justify the carry forward of assets created by tax losses.

Where the ultimate outcome is different than that which was initially recorded there will be an impact on the income tax and deferred tax provisions.

### *27.6 Share-based payments*
The Group is required to measure the fair value of equity settled transactions with employees at the grant date of the equity instruments. The fair value is determined by principally using the Black-Scholes model which requires assumptions regarding interest free rates, share price volatility and the expected life of an employee equity instrument. The basis and assumptions used in these calculations are disclosed within note 20.

# Consolidated Notes to the Financial Statements continued
For the year ended 31 March 2010

**27 Significant accounting estimates and judgements and adopted IFRS not yet applied** continued

***27.7 Standards, interpretations and amendments to published standards that are not yet effective***
At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 Financial Instruments (effective 1 January 2013);
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010);
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009);
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009);
- Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010);
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009); and
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011).

The Group does not consider that these standards and interpretations will have a significant impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 January 2011.

In the current year, the following standards and interpretations issued became effective:

- IFRIC 13 Customer Loyalty;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation;
- IFRIC 17 Distributions of Non-cash Assets to Owners;
- IFRIC 18 Transfers of Assets from Customers;
- IFRS 1 (amended)/IAS 27 (amended): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- IAS 23 (revised) Borrowing Costs;
- IAS 32 (amended)/IAS 1 (amended): Puttable Financial Instruments and Obligations arising on Liquidation.
- IFRIC 14 (amended)/IAS 19 (amended): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- IFRS 2 (amended): Share-Based Payment;
- IFRS 9 Financial Instruments;
- IAS 24 (revised): Related Party Transactions;
- IFRS 3 (revised) Business Combinations and IAS 27 (revised) Consolidated and Separate Financial Statements; and
- IAS 32 (amended): Classification of Rights Issues.

The adoption of these standards and interpretations has not led to any changes in the Group's accounting policies.

The Group adopted IFRS 8 Operating Segments during the year. IFRS 8 requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive. Provided certain quantitative and qualitative criteria are fulfilled, IFRS 8 permits the aggregation of these components into reportable segments for the purposes of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the Directors have had regard to the similar economic characteristics of certain operating segments, their shared client base, the similar nature of their products or services and their long-term margins, amongst other factors. As a result of this assessment, the Directors concluded that the reportable business segments identified under the previous standard (IAS 14 Segmental Reporting) remain appropriate under IFRS 8.

During the year, the Group also adopted IAS 1 (revised) Presentation of Financial Statements which requires the presentation of a statement of changes in equity as a primary statement. As a result, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each year presented.

# Company Balance Sheet

| (in thousands of US Dollars) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 1 | **56,689** | 56,659 |
| **Current assets** | | | |
| Debtors | 2 | **120,644** | 97,795 |
| Cash at bank and in hand | | **107** | 19,546 |
| | | **120,751** | 117,341 |
| **Creditors: amounts falling due within one year** | 3 | **(465)** | (520) |
| **Net current assets** | | **120,286** | 116,821 |
| **Total assets less current liabilities** | | **176,975** | 173,480 |
| **Capital and reserves** | | | |
| Called up share capital | 4 | **21,349** | 21,210 |
| Share premium account | 5 | **128,296** | 127,321 |
| Profit and loss account | 5 | **16,867** | 14,486 |
| Merger reserve | 5 | **10,463** | 10,463 |
| **Shareholders' funds** | | **176,975** | 173,480 |

The financial statements were approved by the Board of Directors on 26 July 2010.

Company registration number 116107C.

**Kishore Lulla**
Executive Chairman

**Jyoti Deshpande**
Chief Executive Officer

# Company Accounting Policies

**Basis of preparation**
As used in the financial statements and accompanying notes, the term "Company" refers to Eros International Plc. The separate financial statements of the Company are presented as required by the Isle of Man Companies Acts 1931 to 2004. As permitted by the Act, the separate financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards. Under Section 3(5)(b)(ii) of the Companies Act 1982 the Company is exempt from the requirement to present its own profit and loss account.

The following describes the main accounting policies which have been consistently applied.

**Revenue recognition**
Interest income is recorded on an accruals basis. Dividends received are recognised at the time of their distribution.

**Investments in subsidiaries**
Investments in subsidiaries are stated in the Company's balance sheet at cost less provisions for impairment.

**Share-based payments**
The fair value of shares or options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the recipient becomes unconditionally entitled to payment.

The fair value of share options granted is measured using the Black-Scholes model, each taking into account the terms and conditions upon which the grants are made.

The amount recognised as an expense is adjusted to reflect the actual number of shares or options that vest.

**Company Notes to the Financial Statements**

***1 Investments***

| | Trade investments US$'000 | Subsidiary undertakings US$'000 | Total US$'000 |
|---|---|---|---|
| Cost | | | |
| At 1 April 2009 | 12,777 | 43,882 | 56,659 |
| Additions | 30 | – | 30 |
| **At 31 March 2010** | **12,807** | **43,882** | **56,689** |

***2 Debtors***

| | **2010 US$'000** | 2009 US$'000 |
|---|---|---|
| Amounts due from Group undertakings | **120,604** | 97,784 |
| Other debtors | **40** | 11 |
| | **120,644** | 97,795 |

***3 Creditors: amounts falling due within one year***

| | **2010 US$'000** | 2009 US$'000 |
|---|---|---|
| Trade creditors | **449** | 509 |
| Accruals and deferred income | **16** | 11 |
| | **465** | 520 |

***4 Called up share capital***
See note 21 within the notes to the consolidated financial statements.

### 5 Share premium and reserves

| | Merger reserve US$'000 | Share capital US$'000 | Share premium US$'000 | Profit and loss account US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 April 2009 | 10,463 | 21,210 | 127,321 | 14,486 | 173,480 |
| Profit for the year | – | – | – | 2,381 | 2,381 |
| Issue of new shares | – | 139 | 975 | – | 1,114 |
| **At 31 March 2010** | **10,463** | **21,349** | **128,296** | **16,867** | **176,975** |

| | Merger reserve US$'000 | Share capital US$'000 | Share premium US$'000 | Profit and loss account US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 April 2008 | – | 20,858 | 127,321 | 8,513 | 156,692 |
| Profit for the year | – | – | – | 4,843 | 4,843 |
| Share-based payments | – | – | – | 1,130 | 1,130 |
| Issue of new shares | 10,463 | 352 | – | – | 10,815 |
| At 31 March 2009 | 10,463 | 21,210 | 127,321 | 14,486 | 173,480 |

### 6 Reconciliation of movement in shareholders funds

| | **2010 US$'000** | 2009 US$'000 |
|---|---|---|
| Profit for the financial year | **2,381** | 4,843 |
| Share-based payment | **–** | 1,130 |
| | **2,381** | 5,973 |
| Issue of new shares | **139** | 352 |
| Premium on issue of shares (net of expenses) | **975** | 10,463 |
| Net increase in shareholders' funds | **3,495** | 16,788 |
| Shareholders' funds at 1 April 2009 | **173,480** | 156,692 |
| Shareholders' funds at 31 March 2010 | **176,975** | 173,480 |

### 7 Contingent liabilities

As at 31 March 2010 the Company had no contingent liabilities with the exception of guarantees provided to subsidiary undertakings totalling US$205,623,000 (2009: US$150,121,000).

### 8 Related party transactions

The Company has related party transactions with its subsidiaries by virtue of its status as Parent Company of the Group.

The Company has taken the available exemption in FRS8 from disclosing transactions with fellow 100% held subsidiaries of the Eros International Plc group of companies. Details of transactions entered into with other subsidiary undertaking are shown in note 25 of the Consolidated Financial Statements.

# Company Information

**Company registration number:**
116107C

**Registered office:**
15–19 Athol Street
Douglas
Isle of Man
IM1 1LB

**Directors:**
Kishore Lulla (Executive Chairman)
Jyoti Deshpande (Chief Executive Officer)
Vijay Ahuja (Executive Director)
Sunil Lulla (Executive Director)
Naresh Chandra (Non-Executive Director)
Dilip Thakkar (Non-Executive Director)

**Honorary Life President:**
Arjan Lulla

**Company Secretary:**
Richard Vanderplank

**Auditor:**
Grant Thornton
PO Box 307
Exchange House
54/58 Athol Street
Douglas
Isle of Man
IM99 2BE

**Investor relations enquiries:**
Jamie M.M.Kirkwood
Head of Investor Relations & Special Projects
Tel: +44 207 258 9906
Email: jamie.kirkwood@erosintl.com
13 Manchester Square
London W1U 3PP

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Telephone **+44 (0)20 7729 9090  www.emperordesign.co.uk**

# www.erosplc.com

**Eros International Plc**
15–19 Athol Street
Isle of Man IM1 1LB

Tel: +44 (0)1624 638300