ANNUAL REPORT & ACCOUNTS 2007

EROS INTERNATIONAL PLC

NAMASTE

Contents

Eros International Plc became the first company within the Indian media and entertainment sector to be listed on the London Stock Exchange, AIM market in July 2006 after amalgamating all the Eros trading entities under one holding company. Having come to the market with a successful track record and a clear strategy to consolidate its leadership position within the sector, the Company has successfully delivered the initial objectives as set out at the time of the IPO. Since the listing the Company has made two acquisitions of content companies, tied up several output deals, mounted select co-production projects, locked arrangements with key actors and directors, and acquired a sizeable number of films for distribution – securing and providing full visibility for its future content release pipeline.

This is Eros International's maiden Annual Report. Celebrating 30 proud years of powering Indian cinema, this report sets out Eros' financial and operational performance for 2007 and the future outlook and strategy to build an enterprise with lasting value.

EROS
BUSINESS AT A GLANCE

Eros International is the leading integrated media and entertainment company within the rapidly growing Indian entertainment sector. Eros produces, acquires and distributes Indian films across all formats throughout the globe. A market leader for three decades, Eros not only releases the highest number of new films every year but is also the proud owner of a valuable film library of over 1,300 films.

Established in 1977, Eros celebrates its 30th anniversary this year. The business was initially set up to tap the lucrative market of distributing Bollywood films internationally by targeting the 50 million expatriate South Asians living outside of the Indian sub-continent. Through the journey to give Indian films a global platform, Eros now operates worldwide offices in India, UK, USA, Dubai, Australia and Fiji.

Building a unique distribution network, spanning across 50 countries and working with over 500 business partners, Eros has now taken Indian films mainstream and succeeded in introducing Bollywood to several new markets such as Eastern Europe and South East Asia.

From film production and music on the one hand to global distribution across cinema, DVD and television formats on the other; and forward integration through new media channels; Eros has built a presence across the entire content value chain for the commercialisation of Indian films.

EROS' STRATEGIC BUSINESS UNITS

EROS PICTURES	**EROS GLOBAL DISTRIBUTION**	**EROS NEW MEDIA**	**EROS MUSIC**
CO-PRODUCTION	CINEMA	CABLE	AUDIO
OUTPUT DEALS	HOME ENTERTAINMENT	BROADBAND	DIGITAL
TALENT TIE-UPS	TV SYNDICATION	TELECOM	MOBILE

'Evergreen Classic' (1960). First Indian film to be digitally remastered in colour.

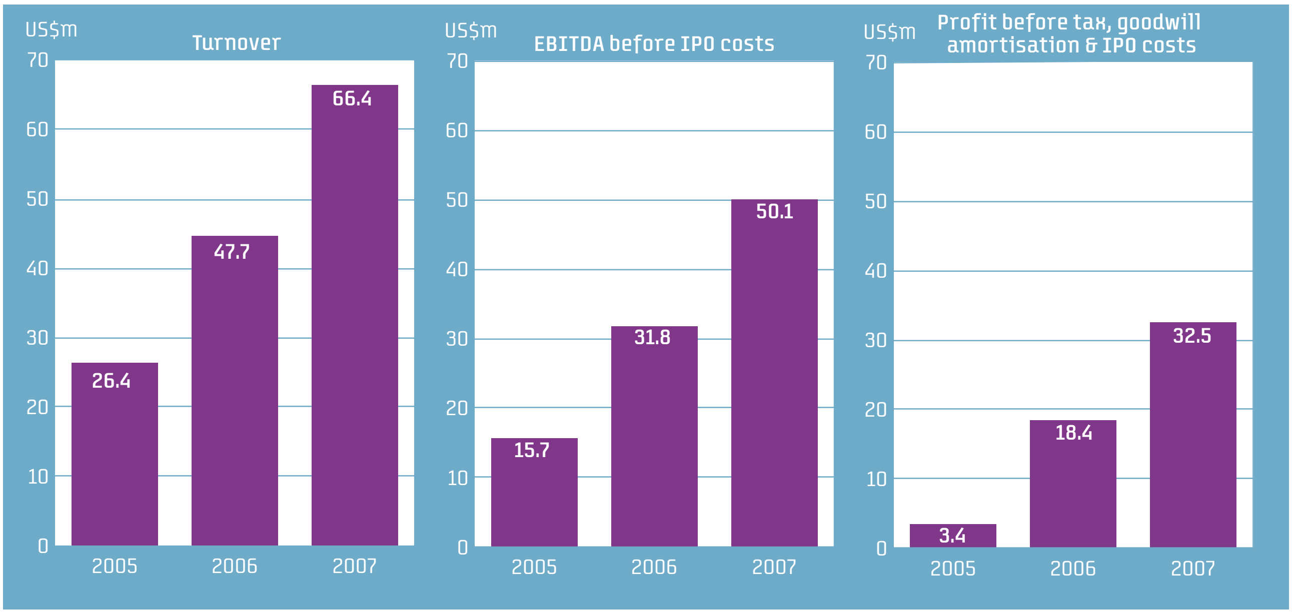
SPOTLIGHT ON 2007

Financial highlights

- Turnover up 48.5% to US$66.4 million (unaudited pro forma aggregated 2006: US$44.7 million)
- EBITDA before IPO costs up 57.5% to US$50.1 million (unaudited pro forma aggregated 2006: US$31.8 million)
- Profit before tax, goodwill amortisation and IPO costs up 76.3% to US$32.5 million (unaudited pro forma aggregated 2006: US$18.4 million)

Operating highlights

- Successfully executed the first phase of content and distribution consolidation
- Enhanced content library through output deals, co-productions, acquisitions and talent tie-ups
- Secured pipeline of over 50 projects for release over the next 24 months
- Established distribution network across India to tap into growing domestic box office
- Launched Eros Music label to take advantage of the mobile and digital boom
- Leveraged catalogue and new film releases through strong television syndication deals
- Pioneered New Media deals with Comcast, YouTube, Microsoft Online Spotlight, Intel Viiv, Mauj Telecom and OnCommand



* Unaudited pro forma aggregated figures. Prior to the year ended 31 March 2007 the trading activities that now form part of the activities of Eros International Plc were carried out in various separately owned entities. The basis of preparation of these unaudited comparative figures are shown on page 68.

'Devdas' - Official Selection Cannes Film Festival 2002

CHAIRMAN & CHIEF EXECUTIVE'S REVIEW

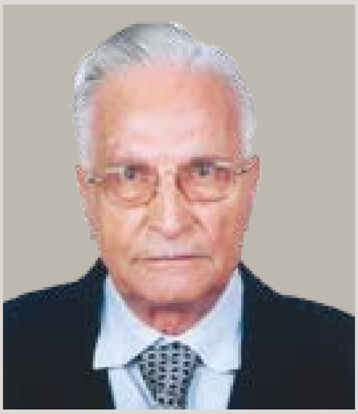
Kishore Lulla
Chairman & Chief Executive Officer

Overview

The past financial year has proved a historic milestone for Eros International. We celebrated 30 years as the undisputed leader in Indian filmed entertainment with a successful stock market listing, record financial results, strong share performance and a powerful strategic position to take a further lead in the consolidation of the sector.

At the outset, I would like to thank the Eros team around the world for the creative momentum, enterprise and hard work that helped deliver both a remarkable financial performance and market dominance in our industry. It has been an even more significant achievement given the change sweeping the media industry. Companies in this sector are adjusting to new distribution systems, new types of content and a new generation of technology-hungry consumers – all areas in which Eros has made significant progress.

The seismic shift in media consumption requires Eros to be even more creative and nimble as we drive the business as a vertically integrated media company. As such, we will combine content and distribution in one of the fastest-growing parts of the entertainment industry, realised through organic investment, strategic alliances and acquisitions as we extend our market leadership.



Arjan Lulla
Honorary Life President

"From a humble beginning in 1977, it is a matter of great pride for me that the Eros dream has taken wings of such remarkable proportions. I am confident that under the vision of the current management, the Company will grow from strength to strength."

Results

In the financial year ending 31 March we marked that leadership position by reporting turnover up almost 50% to $66.4 million, while profit before tax, goodwill amortisation and listing costs jumped more than 76% to $32.5 million. The numbers reflect our success – achieved over 30 years – in transforming a one-time 'cottage industry' into a globally-recognised growth engine. That growth, according to industry analysts, could see the value of the Indian media and entertainment reaching $23 billion by 2011. Eros is poised to benefit from that explosive opportunity.

While our history has been rooted in international distribution, the Company is now benefiting from the rapid boom of the Indian economy. Key indicators such as cinema ticket sales, multiplex development and the size of the middle class – over 400 million expanding by 40 million people every year – point to further growth. Given that potential, it should be no surprise that global media companies including News Corp, Time Warner and Walt Disney are turning their attention to India. As both competitors and potential partners, they will find Eros already has a commanding market presence.

We believe Eros is best placed to capitalise on these growth opportunities within India, while building on its existing international role as the largest distributor of Indian films to TV channels, cinema chains, home entertainment and new media outlets. That role relies on our valuable library of more than 1,300 films and a distribution network in 50 countries: just two components of our business that justify our stock market valuation of over $1 billion.

The Eros share price and market capitalisation reflect the strong financial results from our Company, where turnover in 2007 rose to $66.4 million from $44.7 million in 2006. Earnings before interest, tax, depreciation and amortisation and IPO costs were up almost 60% to $50.1 million together with a climb in profit before tax, goodwill amortisation and listings costs to $32.5 million from $18.4 million.

These record figures are consistent with our market share, accounting for more than a third of the movie releases and box office revenues in our segment. And we expect that share to be sustained with more than 50 projects in the pipeline over the next 24 months, further augmenting our valuable library.

Eros Pictures

As part of our vertically integrated business model, Eros Pictures has now established an important content presence through acquisitions, co-productions, output deals and tie-ups with some of the leading on-screen stars of Bollywood. We have secured commitments and deals from Venus, Sajid Nadiadwala, Anil Kapoor Films Company, Rose Movies, K Sera Sera, Abbas Mastan and E Niwas – each of them a vote of confidence in Eros.

Our content strategy saw Eros acquire 64.6% of Big Screen Entertainment, a new production entity set up with the producers of 'Omkara'.

Since the year end we have announced the acquisition of a majority stake in Ayngaran International Limited which is our first foray into the Tamil film market, which represents the next largest film market in India after Hindi films. Eros has a 51% stake of Ayngaran International Limited, a newly incorporated holding company that is acquiring the business, goodwill and assets of the Ayngaran business. The acquisition will give Eros access to Ayngaran's library of over 600 films and rights to approximately 25 films already in development.

Eros Global Distribution

Over the years, our content library has proved the bedrock of our distribution success.

In the past 12 months, the international distribution business has grown to include further home entertainment tie-ups with major retail chains in both the USA and UK. Dubbed markets continue to be nurtured with deals in Romania, China, and parts of Europe. We have also achieved notable success in television syndication with Sony Entertainment Television, B4U, Zee and several other television networks around the world.

The distribution side of the business is now balanced by our own network across India – including Mumbai, Delhi, Calcutta and Bangalore – and revenues from globally released films such as 'Omkara' and 'Namastey London'.

Eros Music

Our content and distribution convergence will not be confined to on-screen projects alone, as we have shown with the successful launch of Eros Music, an award winning music label that has already achieved chart success and agreed distribution deals with iTunes and Real Rhapsody.

Eros New Media

The music business is linked, in turn, to another successful extension of the Eros business: new media and the internet. Mobile ring tones, one of the fast-growing elements of the new media world, are yet another opportunity as we expand. In our first full year as a listed company, maiden new media revenues were $6.3 million and they are poised to become an increasingly important part of the Company.

In new media, we have signed an on-demand subscription service with Comcast, the largest cable group in the USA. A major mobile output deal was concluded with Mauj Telecom and we launched the first official Bollywood channel on YouTube, which will be monetised through ad clicks. Within a matter of months, the channel has become one of the Top 20 partner channels of YouTube in terms of traffic. Elsewhere, Eros has the only online Bollywood service accessible using Media Center PCs, available through Microsoft Online Spotlight. We have also recently concluded a deal with BSkyB to offer a selection of the latest Bollywood blockbusters and hit library films on Sky Anytime on PCs.

Awards

Taken together, all these elements of our strategy signal strong progress during our first year as a Company listed on London's Alternative Investment Market. That track record was recognised during the year when Eros was given the Honorary Award for its Contribution to Indian Cinema by the International Indian Film Academy Awards in June 2007. Eros was also honoured with the Eastern Eye Asian Business Award for 2007.

Last but not least, on the occasion of the 60th anniversary of Indian Independence; Kishore Lulla and Eros were honoured at the India Splendour Awards in LA organised by MGlobal Trust in association with UCLA.

Kishore Lulla, Chairman & Chief Executive Officer, Eros International, receiving the Business of the Year award from HRH The Duke of York at the Eastern Eye Asian Business Awards

Board and Management

The awards endorse the pioneering strategy developed at Eros, where our Board has been strengthened with the appointment on 1 July 2007 of Naresh Chandra as the senior independent non-executive director. Mr Chandra has led a distinguished political career, including serving as the Indian ambassador to the USA, and is Chairman of the advisory board of Coca Cola India Limited among other commercial appointments. We have also added new members to the Eros team, especially in the areas of legal, new media, music and India distribution to ensure we are able to capitalise on the opportunities facing the Group.

Outlook

The board of Eros is fully committed to the growth strategy of the business, which is expected to involve new developments in four growth areas: animation, digital cinema, gaming and cable networks, all of which revolve around opportunities within the content ecosystem and broader distribution within the Indian entertainment sector.

Animation in India promises to be a significant growth business, where we intend to take a leading role by leveraging our distribution as well as our relationships with content creators. As part of that strategy, Eros has commissioned its first full length feature animation, 'Toonpur ka Superstar' and will also be releasing 'Friends Forever' this Christmas.

We plan to extend our local presence across India by signing deals with cinema owners for the development of digital cinema distribution, enabling Eros films to be released in many more outlets using the available new technologies. This will allow Eros to better monetise its films throughout India rather than just being focused on large urban multiplexes.

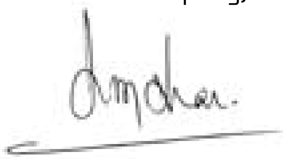
Part of the brand extension for the Company also creates opportunities in casual gaming, where Hollywood film based titles are already generating more than 20% of gaming revenues in the US$50 billion industry. The casual gaming market is exploding globally through the convergence of broadband internet, mobile phones, home entertainment and consoles. Going forward, Eros will spearhead the development of the gaming sector within the Indian Media and Entertainment market by building strategic partnerships around the film content it owns to distribute and develop games.

Lastly, our broader distribution presence will extend to the cable TV market in India, where there are more than 80 million cable homes. Eros will participate with a content driven strategy of cable channels, video-on-demand and value added services as the fragmented cable market is digitised and consolidated.

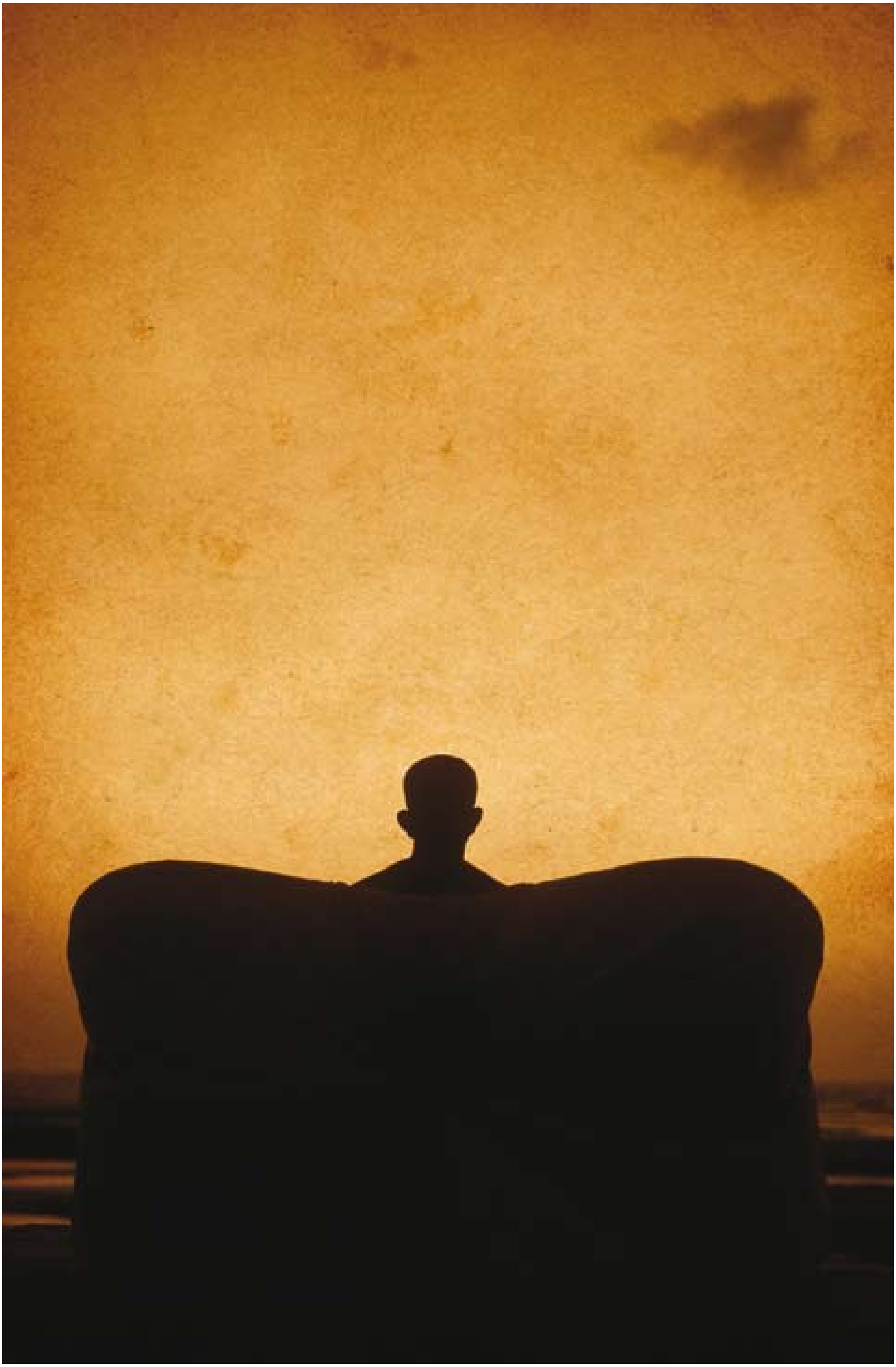
These four growth areas of animation, digital cinema, gaming and cable channels complement our ambitions in content and distribution. Such strategic ambitions have contributed to our success as a Company over three decades – an achievement recognised by our competitors and partners across the industry. It has been a pioneering journey, which is not yet complete. Indeed, we are just at the inflection point where Eros moves to a next phase of expansion and consolidation.

I believe that our investors, employees, customers, partners and suppliers will all participate in the upside created by our growth story. It will see us become the leading player across all forms of Indian content and distribution, achieved through organic growth, partnerships and acquisitions.

Much has already been achieved, not least through the hard work of our own employees and the support of our shareholders. It gives me confidence that Eros will flourish and exploit the challenges ahead. For this Company, the best is yet to come.



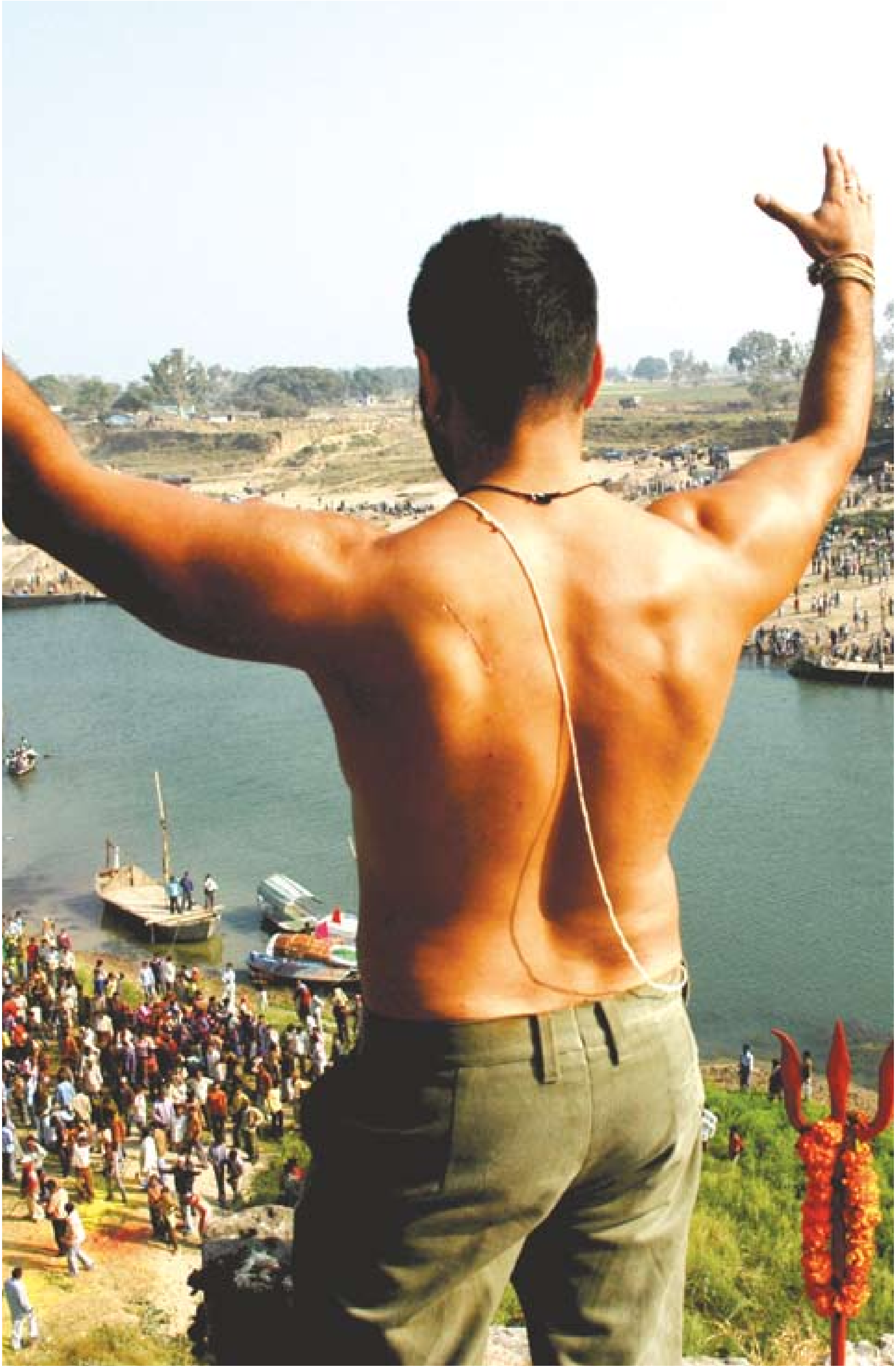
Kishore Lulla
Chairman & Chief Executive Officer



'Gandhi My Father' (2007). "This unique story of a father coming to terms with his family is deeply moving."
Nelson Mandela, Former South African President and Nobel Peace Prize Winner

"Eros International is at an inflection point, having created the world's leading owner and distributor of Indian film entertainment. Our first full year results as a listed company give us confidence to forge a unique vertically integrated media company – focused on the fast-growing Indian entertainment sector – with a strong position at the box office, in home entertainment and new media. The next development phase at Eros will combine organic investment, strategic alliances and acquisitions to extend our market leadership."

Kishore Lulla
Chairman & Chief Executive


'Omkara' (2006). Powerful Indian adaptation of Shakespeare's Othello.

THE INDIAN ENTERTAINMENT SECTOR

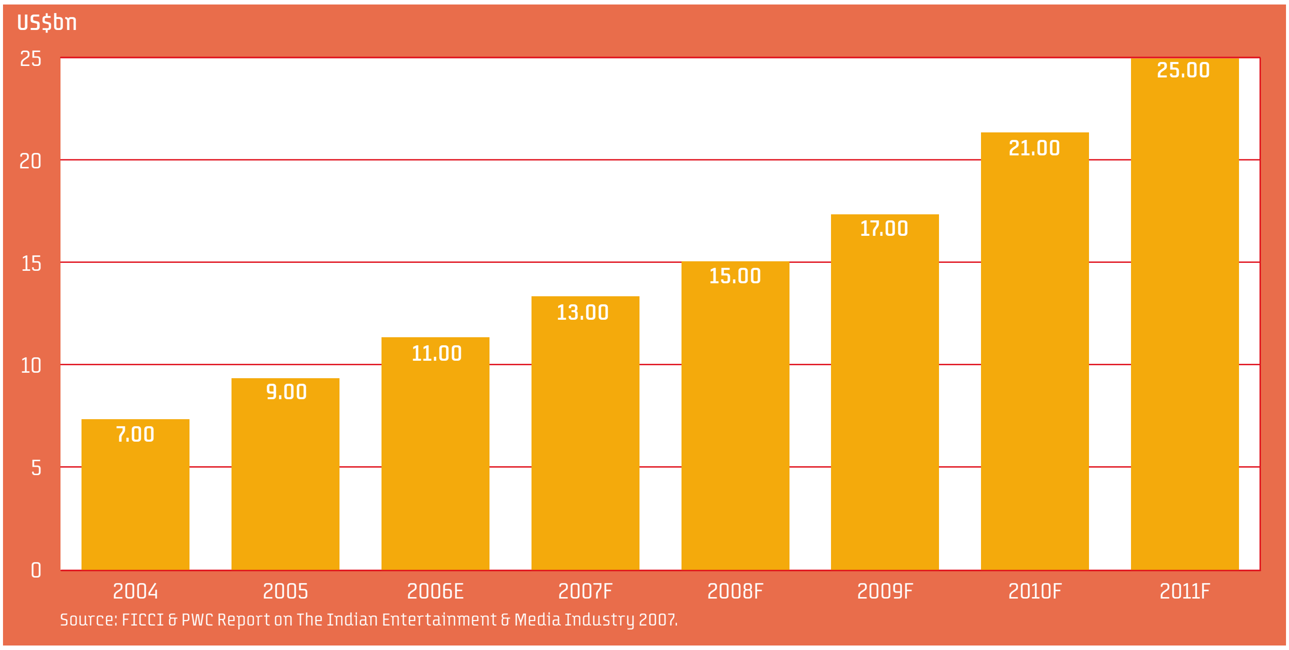
With over 40 million people joining the consuming middle class every year, the Indian economy, the fastest growing democracy in the world, continues to boom.

The Indian entertainment sector currently valued at over $10 billion by PriceWaterhouse Coopers, is growing at 18% CAGR and is slated to cross $25 billion by 2011. The Indian film industry contributes 20% of the total entertainment sector valuation. India has the most prolific film industry in the world, measured by film production, following more than a century of cinema growth. The industry employs over 6 million people.

More than 70,000 Indian films have been made since the advent of the talkies in 1931.

India has about 13,000 single screen theatres servicing its 3.9 billion estimated annual ticket sales. With growth in multiplexes, there is a marked increase in ticket prices, which have propelled the Indian box-office revenues skywards.

Highly fragmented across production, distribution and exhibition, the lucrative Indian film industry is in the same phase as Hollywood was in the 1930s – poised for consolidation.



Estimated size of Indian Entertainment & Media Industry

'Devdas'. BAFTA nominated. One of the most expensive and widely distributed Indian films.

OPERATING & FINANCIAL REVIEW

Eros has seen a growth this year from all of its main strategic business units. Having historically focused its business on the international arena, this year saw Eros make a firm entry into the Indian distribution space.

Eros Pictures emerged as a new division of the Company focused on the content tie-ups either by way of productions, co-productions, output deals or agreements with talent.

Eros Global distribution has three main revenue streams namely Cinema, Home Entertainment and TV syndication. There was a major surge in revenues over last year as a result of box office revenues from India which saw Eros release five films in India this year. Home entertainment activities revolved around Bollywood and Hollywood in India and Bollywood retail distribution together with dubbed markets distribution internationally. Television syndication once again demonstrated strong results.

Eros New Media saw major growth this year and firmly established itself as a key business unit of Eros in this era of digital convergence.

Eros Music also established the brand as a music label and secured new revenue streams exploited through its existing distribution infrastructure.

'Lage Raho Munnabhai' (2006). Winner of Best Director, IIFA Awards 2007; Best Film, Global Indian Film Awards 2006; Best Story, Screen Awards 2007.

EROS PICTURES

Content is at the heart of Eros' business strategy. Having traditionally acquired content purely from independent producers, Eros ventured back into film co-productions in the year 2005 and has since co-produced four films. However, Eros has a multi-fold strategy to channelise content into its distribution network – acquisition, co-productions, output deals with production houses and talent tie-ups.

Acquisitions

Big Screen Entertainment Pvt. Limited – 'Omkara' was Eros' first co-production for the year with Big Screen Entertainer. Eros then acquired a 64.6% stake in a new production vehicle Big Screen Entertainment. 'No Smoking', 'Sunday' and 'Haale Dil' are the three projects currently underway. 'No Smoking', starring John Abraham, is scheduled for release this October.

Ayngaran International – In July 2007, Eros acquired a 51% interest in Ayngaran, the Tamil film market leader with a successful 20 year track record. The transaction will give Eros access to Ayngaran's library of over 600 films, while securing rights to approximately 25 new films already in development.

Co-production/Output deals

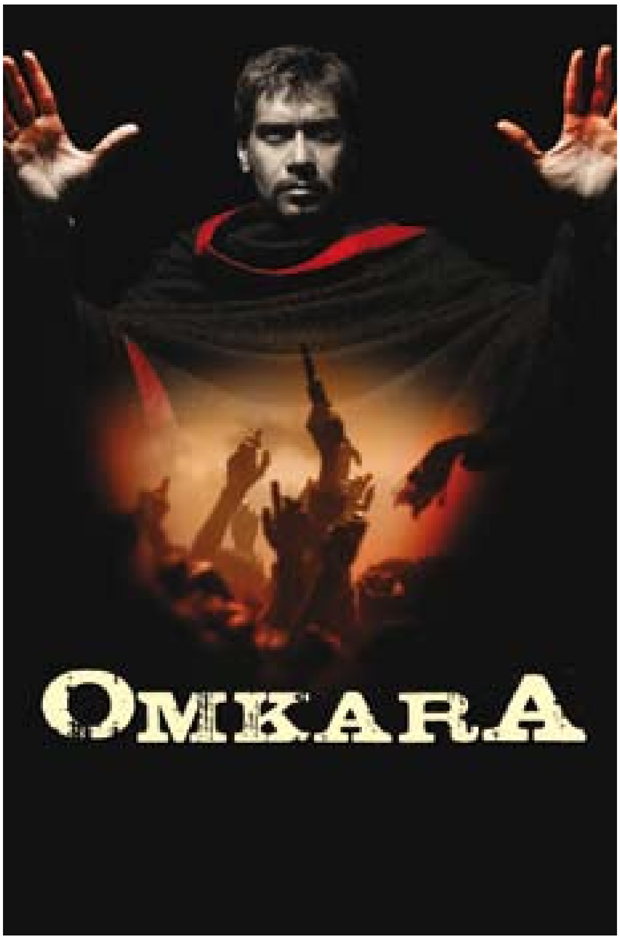
K Sera Sera – Eros entered into a five-year output deal with the Bombay Stock Exchange listed production house K Sera Sera to co-produce and exclusively handle global distribution of its forthcoming films. The deal gives Eros a first option on the entire K Sera Sera's film slate of at least 17 films, following on from the current release 'Partner'.

Venus Films – Eros has entered into a three year output deal with Venus, one of India's leading and oldest production houses, whereby all films from the Venus banner will be co-produced by Eros allowing exclusive ownership of the copyright for distribution across all formats.

Sajid Nadiadwala & Grandsons – Eros has entered into an output deal with Sajid Nadiadwala, a top Indian producer with the global release of the first project under the contract 'Heyy Babyy' on 24 August 2007. Two other films titled 'Judwaa Part 2', a sequel to the hit film 'Judwaa' as well as 'Kambakth Ishq' are scheduled for completion and release in 2008.

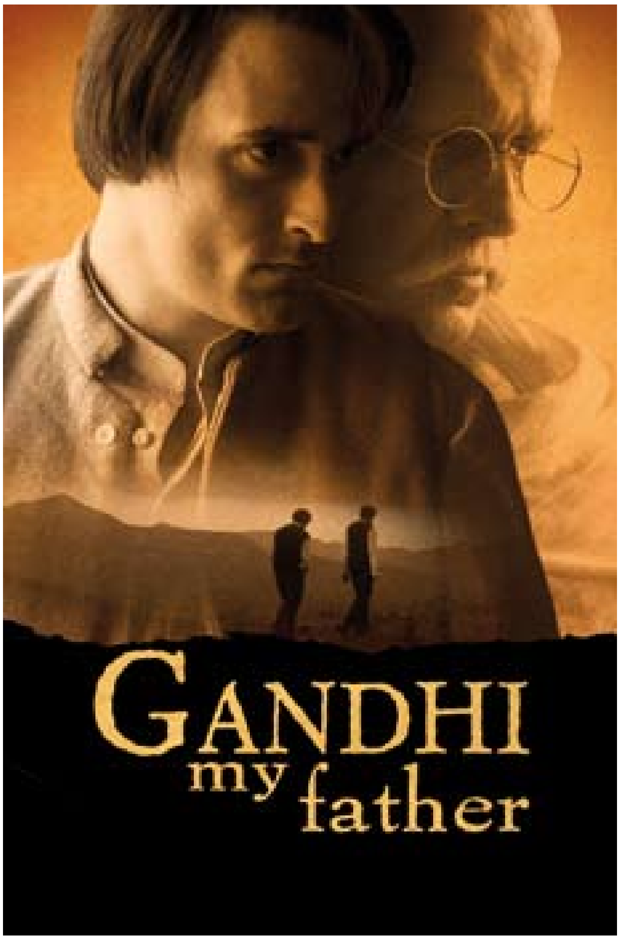
Rose Movies – Eros has signed a four film output deal with Rose Movies, starting with the co-production 'Drona' starring Abhishek Bachchan and Priyanka Chopra.

Anil Kapoor Films Company – Eros has also signed an output deal with Anil Kapoor Films Company and the first film released was 'Gandhi My Father', in August 2007.

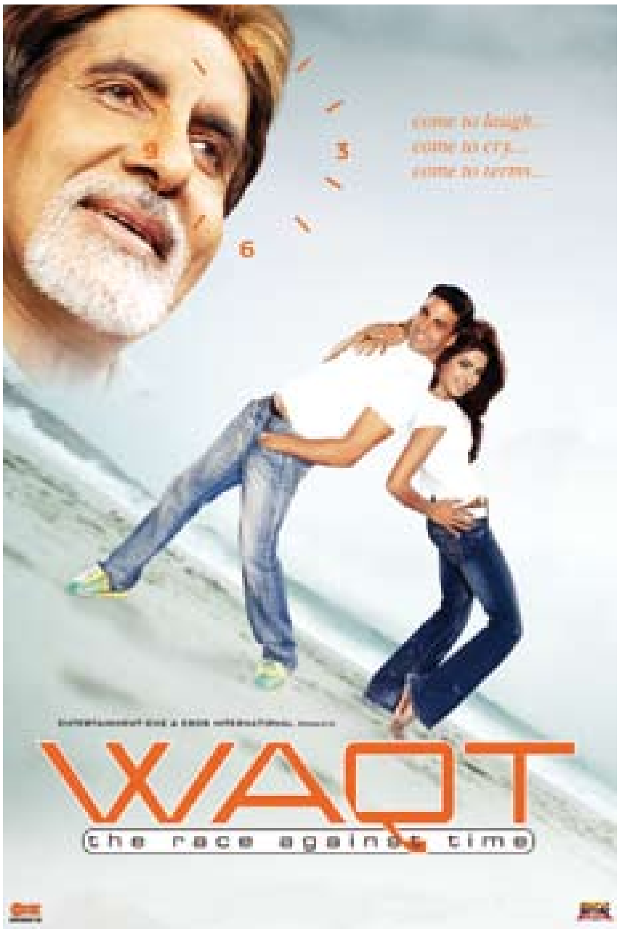


Eros co-production with Big Screen Entertainer (2006)

Eros co-production with Big Screen Entertainer (2007)



Eros co-production with Anil Kapoor Films Company (2007)



Eros co-production with Entertainment One Pvt. Ltd. (2005)

EROS PICTURES

Talent Tie ups

Saif Ali Khan – Eros has tied up a major deal with Indian film superstar Saif Ali Khan to star in and co-produce three films. The first project to be launched under this agreement is titled 'Agent Vinod' to be completed and released in 2008.

Abbas Mastan – Eros has tied up a joint venture with ace director Abbas Mastan who has several thriller hits to his credit like Baadshah, Ajnabee and Aitraaz.

Sujoy Ghosh – Eros has signed up young and talented director Sujoy Ghosh of films like 'Home Delivery' and 'Jhankaar Beats', and the his first venture with Eros will be 'Alladdin' slated for a 2008 release.

Sanjay Gupta – Eros has also tied up with another top director Sanjay Gupta who is known for his highly stylised film noir thrillers that stand out from the usual Bollywood fare.

Anil Sharma – Eros has signed up with another reputed director Anil Sharma who has given hits such as 'Apne' and known for his pulse over the family audiences.

Anurag Kashyap – A writer turned director, Anurag has been associated with several hit films such as 'Guru' and is now directing 'No Smoking' with John Abraham for Eros.

Samir Karnik – Eros has also tied up with young writer director Samir Karnik who has directed 'Kyon Ho Gaya Na' and 'Nanhe Jaiselmer'.

Manish Jha – Eros has also tied up with critically acclaimed director Manish Jha whose 'Matrubhoomi' won awards at several international festivals.

E Niwas – Eros has signed up director E Niwas who has directed hit films such as 'Dum'.

Sanjay Sankla – Eros has signed with Sanjay Sankla who is one of the topmost editors in the business.

Soham Shah – Eros has tied up with director Soham Shah who has worked on huge hits like 'Kabhi Khushi Kabhi Gham' as assistant director.

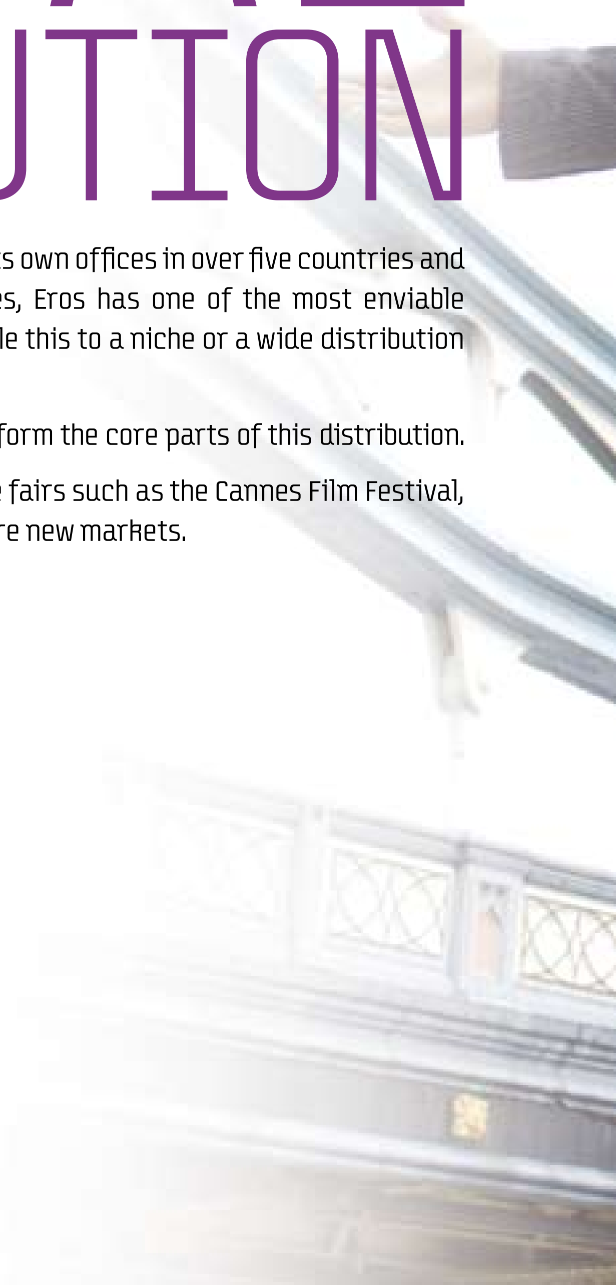
A R Rehman – Eros has signed up with top music director and composer A R Rehman who is famed for his several great works including Andrew Lloyd Webber's musical 'Bombay Dreams'.

Apart from all of the above Eros has also acquired big blockbuster films such as superstar Shah Rukh Khan's 'Om Shanti Om' which is slated for a release in November 2007. Ramgopal Verma's 'Darling', T Series' 'Bhool Bhulaiyan' are some of the other films to be released this year.

In true studio fashion, through the acquisitions, co-productions, output deals and talent tie-ups, Eros has secured visibility on more than 50 projects for future distribution either on a global or international basis that are slated for release during the next two years.

Eros co-production with Rose Movies (2008).

EROS GLOBAL DISTRIBUTION



Global distribution is one of Eros' key competitive advantages. With its own offices in over five countries and unique network and distribution relationships across 50 countries, Eros has one of the most enviable distribution infrastructures within the industry. Eros' ability to scale this to a niche or a wide distribution strategy makes it truly distinctive.

Cinema distribution, home entertainment and television syndication form the core parts of this distribution.

Eros continued to participate in all the major film markets and trade fairs such as the Cannes Film Festival, AFM, MIPCOM and MIPTV to sustain business development and explore new markets.


a lot to live
got a lot to give

CINEMA

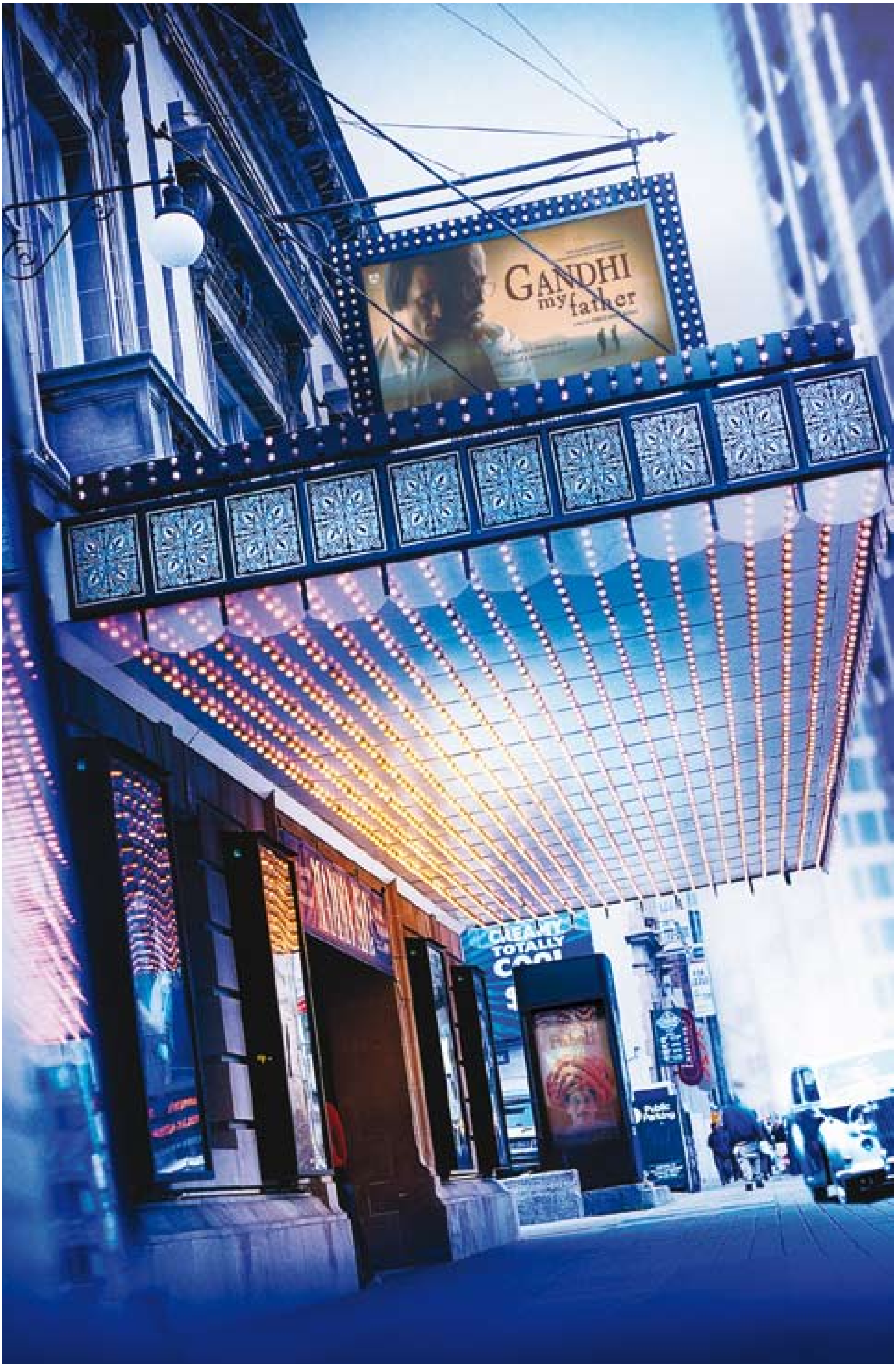
With 3.9 billion tickets being sold in India every year across 13,000 screens and the growing number of cinema multiplexes rapidly driving up the overall average ticket price, Eros has entered Indian theatrical distribution, capitalising on its existing international distribution stronghold.

The India distribution arm was launched with 'Omkara', a powerful adaptation of Shakespeare's 'Othello', which not only performed well at the box office but also received critical acclaim including a Best Director award at the Cairo Film Festival.

Eros set up its own distribution offices in Mumbai, Delhi, Bangalore and Kolkota to mirror the areas where the cinema multiplex chains have maximum penetration. Within a span of six months Eros further consolidated its distribution in India by releasing 'Salaam E Ishq', 'Eklavya', 'Namastey London' and 'Provoked'. These were all big banner, multi star-cast films.

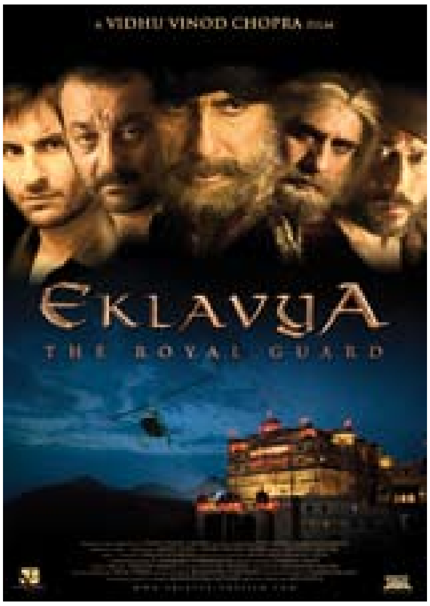
In total 17 films were released internationally in the year ended 31 March 2007, of which four reached a global audience.

There are considerable growth opportunities still available to Eros from the 50 million South Asians living outside of the Indian sub-continent. They form the primary target audience for the films that Eros distributes in markets such as the UK, USA, Canada, Africa, United Arab Emirates, Australia and Fiji. New audiences continue to be developed and this year Eros was successful in theatrically releasing films in Holland and Belgium for the first time in mainstream chains.


GANDHI
my father

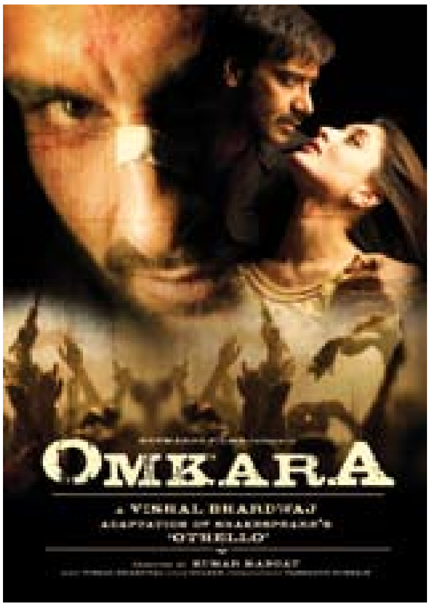
GLOBAL RELEASES

2006-07

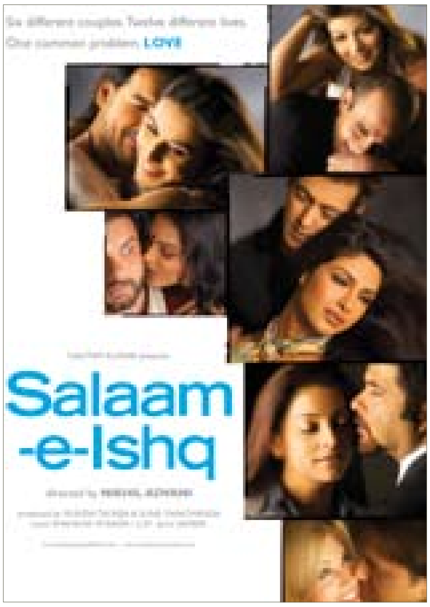


Released February 2007

Released March 2007



Released July 2006



Released January 2007

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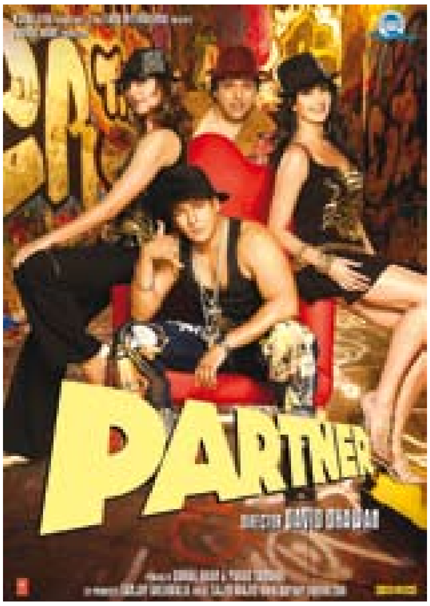

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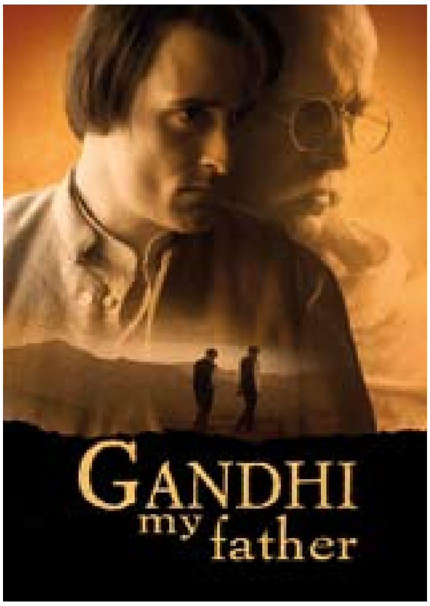

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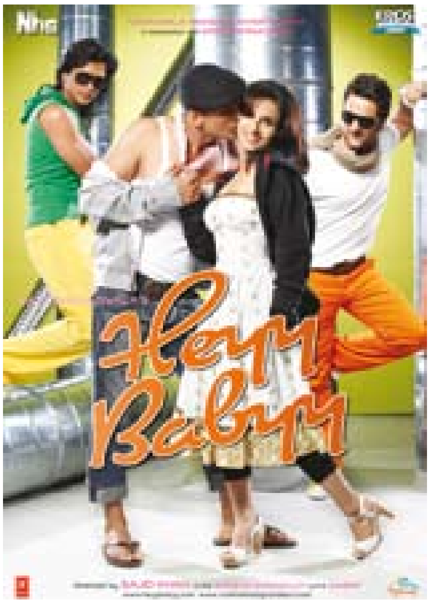

Releasing August 2007

Releasing October 2007

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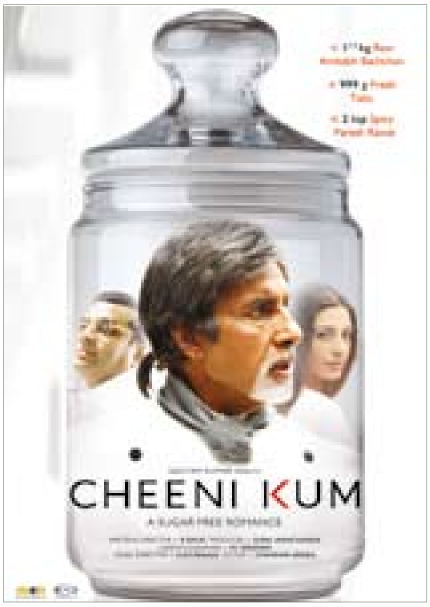


Released May 2007

HOME ENTERTAINMENT

Eros continued to take advantage of the growing home entertainment business in India and has further augmented its Hollywood film catalogue with over 50 additional titles. Internationally Eros released 30 new films in the home entertainment market. New dubbed markets continued to emerge such as China, Romania and Russia, to name a few.

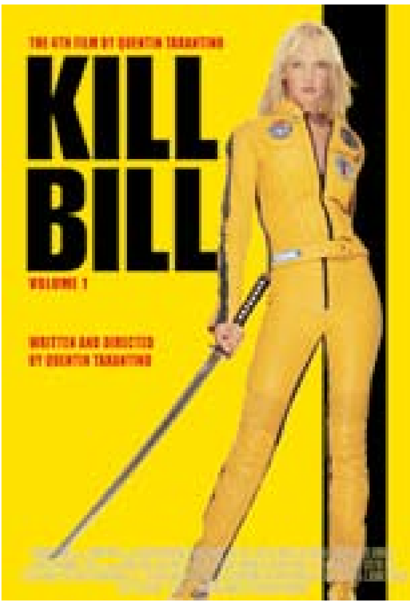
The expansion of international mainstream DVD distribution continues to grow with deals secured with Amazon and Baker & Taylor, and further shelf space secured with high street retailers during the year. The potential for the high definition DVD market has yet to be realised but the Group is well placed to take advantage as the market evolves. Eros also offers DVDs on e-commerce platforms through its online store http://www.erosentertainment.com.

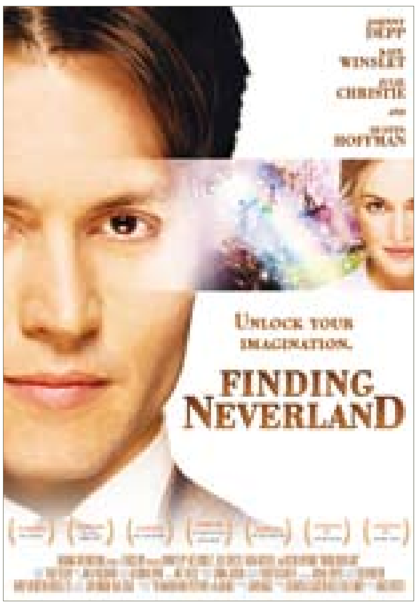
Award winning comedy based on Gandhian philosophy of non violence.

HOLLYWOOD

In India, Eros' DVD and VCD distribution spans the length and breadth of the country and includes both Hollywood and Bollywood titles. Eros have released hit titles like 'Kill Bill', 'Aviator', 'The Phantom of the Opera' and 'Finding Neverland' for the Indian market in both original language and dubbed Indian local language versions.

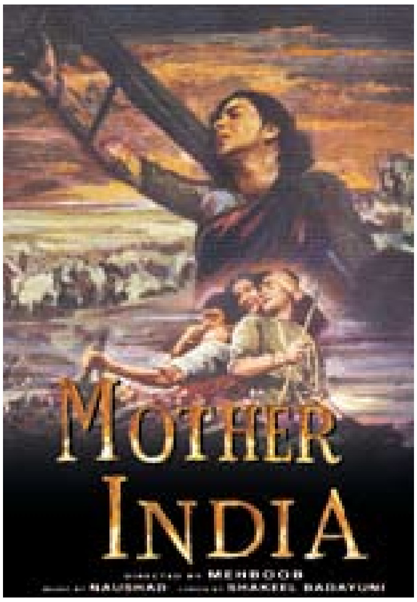
The Company has acquired 50 further titles for release in the next 12 to 24 months.

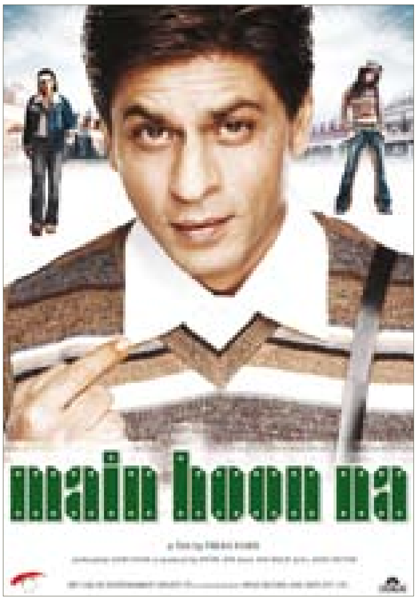


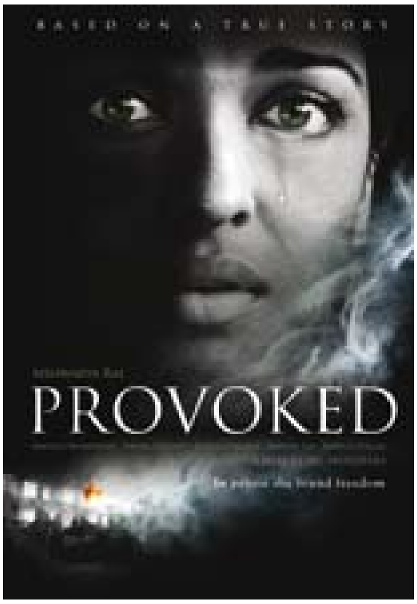


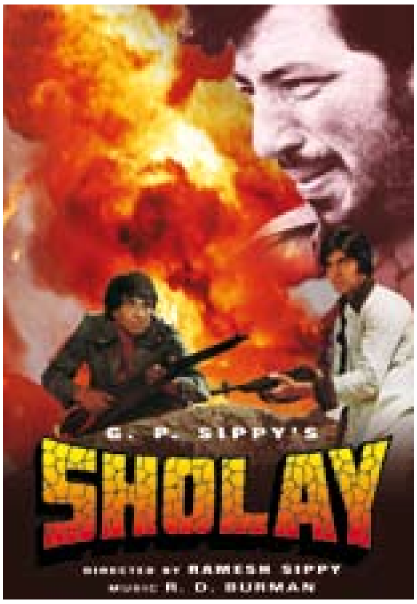
BOLLYWOOD

Home Entertainment in India is going through a paradigm shift. As the market moves from the video CD (VCD) format to DVD format, several multinational corporations such as Toshiba, Sony and Panasonic are pushing sales of DVD players in India. This is bringing prices down and making it an affordable commodity within the consuming middle class. Eros distributes DVDs through its own dealer network as well as large retail stores in India, backed by an extensive catalogue. Internationally Eros is driving DVD distribution through a combination of own dealer network, high street retail chains and online sales. Eros plans to launch a selection of titles on HD-DVD format shortly.









TELEVISION SYNDICATION

Television is one of the fastest growing sectors within the Indian Entertainment sector. With the implementation of a conditional access system ('CAS') and the Indian economic boom, subscription and advertising revenues are going up. In the race for ratings, all TV channels are seeking new and library films to drive the viewing numbers.

Through the host of new releases combined with the power of an extensive catalogue, Eros is able to enter into significant television syndication deals. During the year Eros concluded a major deal for broadcast of a selection of its films on Sony Entertainment Television globally. Eros also signed further deals with B4U, Zee TV, Channel 4 and other networks around the world.

The local language dubbed and subtitled markets opened up a few years ago with markets like Indonesia, Malaysia, Germany, Russia and Thailand embracing Bollywood content. Eros has successfully entered further new markets like Egypt, Denmark, Norway, Poland, Portugal, Romania, Sweden and Spain with some early deals. Television deals can substantially influence the revenue potential for home entertainment in these countries.

'Pyaar Ke Side Effects' (2006). A modern romantic comedy.

EROS NEW MEDIA

Eros continues to pioneer new media initiatives through key strategic distribution deals and digitally repurposing its value content library of over 1,300 films.

Apart from ongoing deals with RTL Holland, Movielink, Rogers Cable Canada and Tiscali HomeChoice, the following are some of the significant deals signed by the Company.

Comcast

In September 2006, Eros launched North America's first Bollywood subscription video-on-demand service on the Comcast cable network, representing a significant milestone in its new media strategy. The service has received favourable consumer response since launch and we are working to establish similar offerings with cable and ISP providers in the USA, UK and around the world.

Microsoft Online Spotlight

Having announced its strategic technology and marketing alliance with Intel Corporation, Eros went on to launch the service that will allow the consumers to access their internet service through Microsoft Media Centre PCs using a remote control just like in a television. Eros is one of the featured channel buttons on the Microsoft Online alongside MTV, BBC, NBC Universal and other large players. The importance of this placement will grow with the increased penetration of Microsoft Media Centres in the following years.

OnCommand

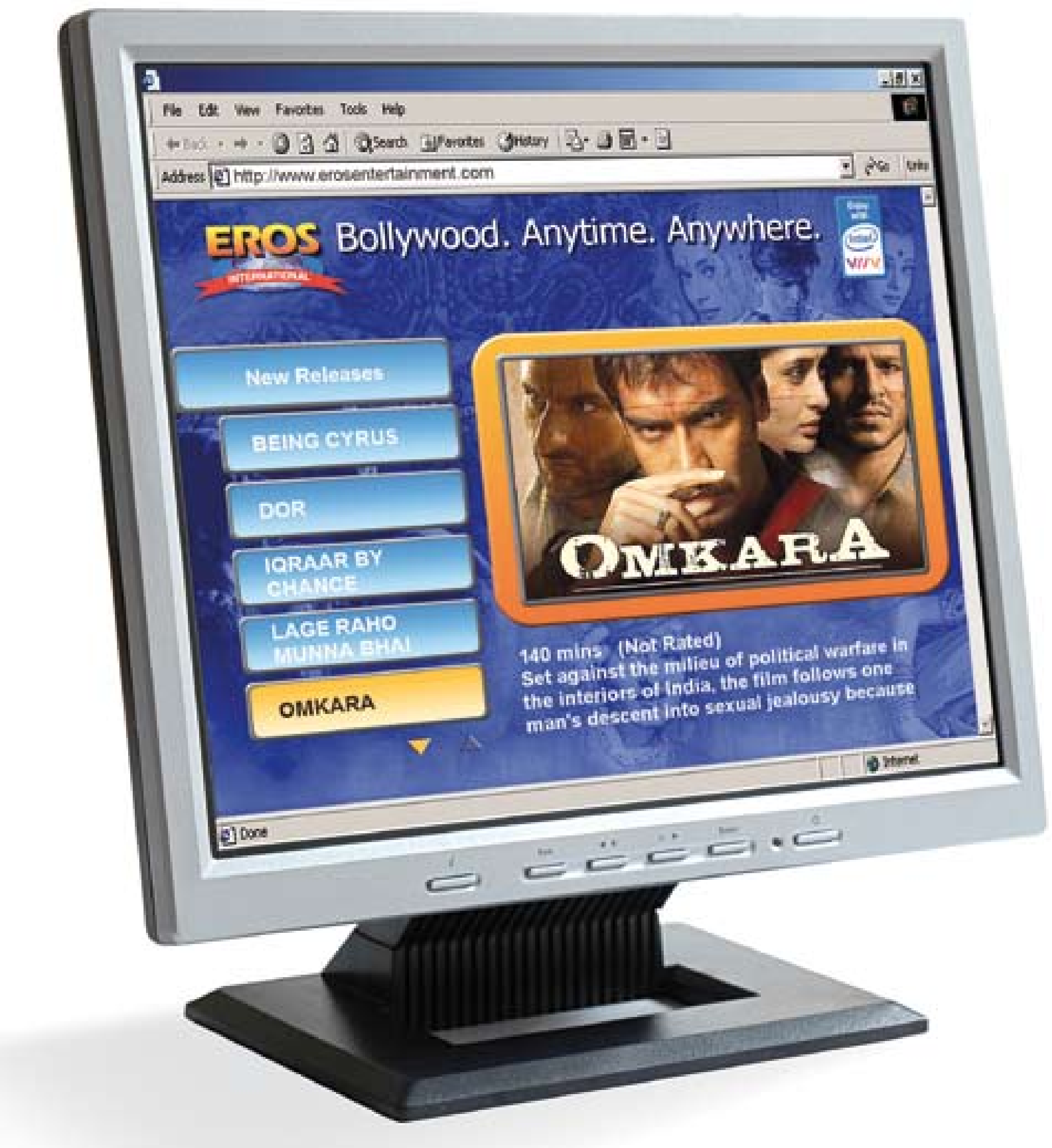
Eros concluded a deal with OnCommand, a leading provider of hotel in-room interactive entertainment connecting over 300 million guests annually. This agreement enables Eros to license its content to hotel chains in the USA on a video-on-demand basis. Initial uptake has proved promising and we are working with OnCommand to increase the number of titles and availability.

Mauj

Eros signed a mobile content licensing deal with Mauj Telecom, a fairly new revenue stream for the Company. Wireless uptake in India has been growing at over 80% CAGR over the last two years according to the PWC report on the Indian Entertainment sector.

Sky

Through a recently signed deal with BSkyB, Eros will offer a selection of the latest Bollywood blockbusters and hit library films through Sky Anytime.



As part of its business to consumer strategy Eros has two main initiatives.

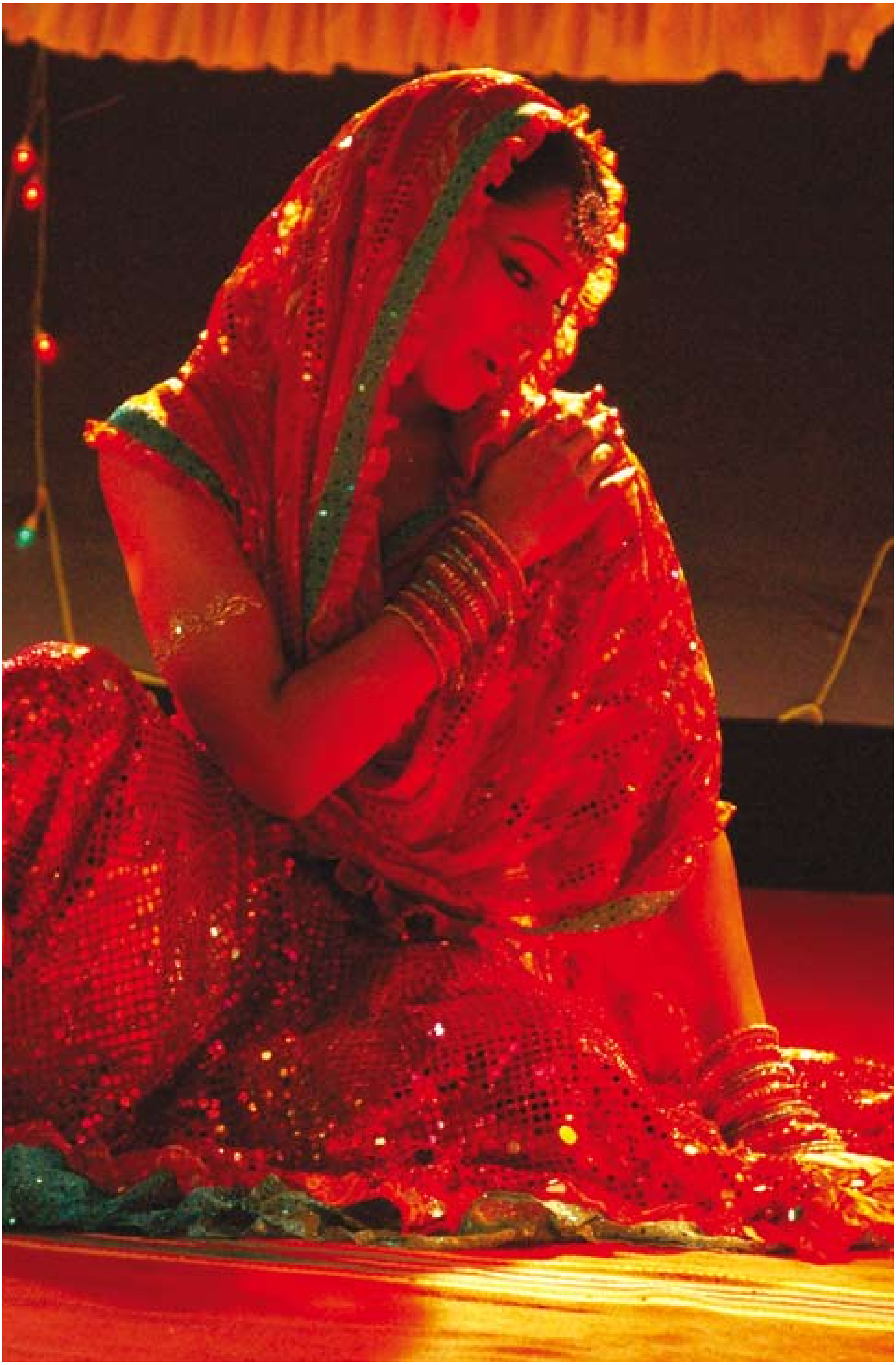
www.erosentertainment.com is one of the only official online portals that offers full length feature films for download or stream, music videos, mobile ringtones and DVDs all as a one stop shop destination. The content is offered on subscription, pay-per-view or download to own models.

www.youtube.com/erosentertainment is the only official Bollywood entertainment partner channel on Google's YouTube. Eros launched this channel in May and within three months it has raced up to the Top 20 channels with over two million page views. The channel is composed of clips and trailers and other short form content that people can access for free and post their comments on and share with their friends and the monetisation is based on advertising per click.

Eros will continue to dedicate resources to the development of its new media strategy in order to become the gateway to the digital home for the South Asian audiences worldwide.

EROS MUSIC

In line with Eros' vertical integration strategy, Eros established its own music label with the film 'Omkara'. The label not only allows Eros to leverage its existing Home Entertainment distribution infrastructure, but also capitalise on the growing demand for digital music by signing distribution deals with iTunes, Real Rhapsody and Mauj Telecom for mobile rights. Eros successfully launched five more music titles in quick succession. 'Omkara' and 'Namastey London' were particularly successful, holding their No. 1 position in the top 10 charts in India for several weeks.



Song 'Beedi Jalai Le' from the film Omkara . Winner of 'Best Choreography Award', IIFA 2007.

EROS LIBRARY



'Content is king' in this era of digital convergence.

Over the last three decades, Eros has aggregated a rich content library of over 1,300 films.

Whether it is classics like 'Sholay', 'Mother India' and 'Mughal-e-Azam'; or blockbusters like 'Main Hoon Na', 'Munnabhai MBBS', 'Baghban', 'Waqt' and 'No Entry'; or arthouse films like 'Provoked', 'Dor' and 'Gandhi My Father'; or recent releases like 'Namastey London', 'Lage Raho Munnabhai', 'Salaam-e-Ishq', 'Omkara' and 'Eklavya' – the Eros library has them all. Hit films of 'Amitabh Bachchan', 'Shah Rukh Khan', 'Salman Khan', 'Aishwarya Rai' as well as some of India's finest directors are part of the Eros film library.

Eros monetises its catalogue through **Home Entertainment formats**, **Television Syndication** and **New Media formats** like online downloads and streaming on a worldwide basis. In several markets around the world like Germany, Russia, Malaysia or Indonesia, Eros releases films as dubbed or subtitled versions in their local languages.





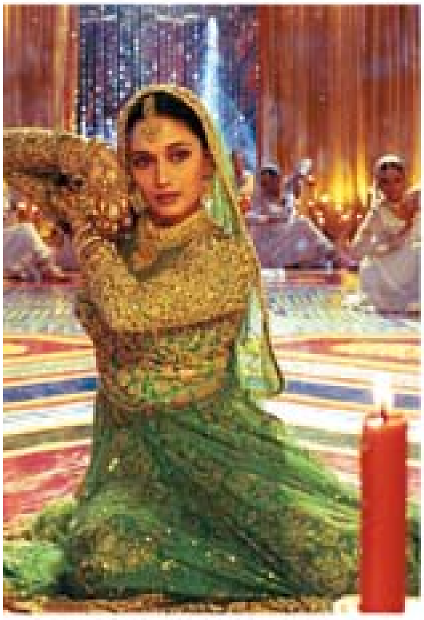




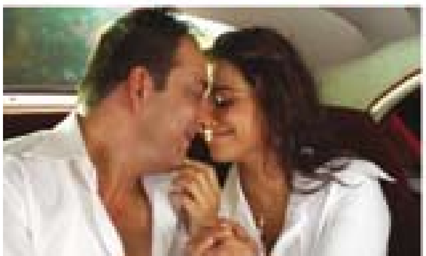


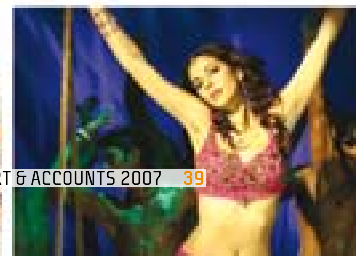






EROS
BOARD & MANAGEMENT

Kishore Lulla
Chairman & Chief Executive Officer

Mr Lulla has been one of the principal driving forces behind Eros International Plc, the global integrated media and entertainment Company for the last 18 years.

Mr Lulla has a huge wealth of management experience in Bollywood film distribution. He co-founded Eros UK in London in 1988. He played a significant role in the launch of the UK's first 24-hour Bollywood digital satellite and pay TV channel on the BSkyB platform. Throughout his tenure he has been instrumental in evolving Eros from a film distribution Company into an international vertically integrated content business.

Mr Lulla is a member of BAFTA and Young Presidents' Organisation. He has been honoured at the Asian Business Awards 2007 and prestigious Indian Film Academy Awards 2007 for his contribution in taking Indian cinema global.

Vijay Ahuja
Vice Chairman & President – International

Mr Ahuja co-founded Eros' UK business in 1988 with Kishore Lulla 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. He has a degree in Commerce from Mumbai University.

Jyoti Deshpande
Chief Operating Officer & Commercial Director

Mrs Deshpande joined Eros in 2001, taking on overall responsibility for business strategy and operations. With over 13 years' media industry experience prior to joining Eros, she worked in advertising with J Walter Thompson India, headed Advertising Sales & Marketing with Zee Network UK and was a senior consultant with MindShare UK (part of the WPP Group). Between 1999 and 2001, she was part of the senior management team that founded B4U Television Network. She is a regular speaker at industry forums and is a member of the British Film Institute. Mrs Deshpande has a degree in Commerce & Economics and an MBA from Mumbai University.

Sunil Lulla
Executive Director & President – India

Mr Lulla has been instrumental in developing the Indian arm of the business along with founder Arjan Lulla. He has overall responsibility for the production arm of Eros and is well versed in all aspects of the production value chain. He is Chairman of the Company's content acquisition committee, which has shaped the growth of Eros' home entertainment distribution network in India, including Hollywood films. He has a degree in Commerce from Mumbai University.

Dilip Thakkar
Senior Non-executive Director

Mr Thakkar, a practicing 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 has a degree in Commerce and Law from Mumbai University.

Naresh Chandra
Senior Non-executive Director

Naresh Chandra, has led a distinguished political career spanning over four decades and brings extensive knowledge and experience of the political and economic environment in India. Since joining the Indian Civil Service in 1956, Mr Chandra has served in several capacities including Chief Secretary of the State of Rajasthan, Home Secretary of the Government of India and Cabinet Secretary of the Government of India, the latter being the highest post in the Indian Civil Service. In August 1992, he was appointed a Senior Adviser to the Prime Minister of India and from 1995 to 2001 was Ambassador of India to the United States. He is currently Chairman of the advisory board of Coca-Cola India.

Roger Vakharia
Non-executive Director

Mr Vakharia served at Intel Corporation between 1995 and 2006 holding a series of senior management positions focused on the media and entertainment content industry. His latest position was as Managing Director of Global Content Alliances with Intel's Digital Home Group wherein he concluded prominent alliances including Revelations Entertainment, a production company co-founded by actor Morgan Freeman and producer Lori McCreary. He has a degree in Management and an MBA in Technology Management from the University of Phoenix. Roger will be retiring as a Director at the forthcoming AGM.

Senior Management

UK Office

Andrew Heffernan
Group Chief Financial Officer

Nayeem Syed
General Counsel

Marcus Stuart
Executive Vice President
Business & Corporate Development

Ajay Mavin Kurve
Group Financial Controller

Bhavna Mistry
Vice President – Europe

Alice Coelho
Vice President – New Markets

USA Office

Ken Naz
President – North America

Manu Kaushish
Senior Vice President – New Media

India Office

Hanif Khatri
Senior Vice President – India Operations

Viki Rajani
Executive Vice President – Eros Pictures

Surender Sood
Vice President – Production Finance

Anand Shankar
Vice President Finance – India

Prashant Gaonkar
Vice President – Airborne Sales

Raj Malik
Vice President – India Distribution

Dubai Office

Surender Sadhwani
Vice President – Dubai

Kumar Ahuja
Vice President – International Sales

Kalyan Sundaram
Creative Director

Australia Office

Aman Raniga
Vice President – Australia

Fiji Office

Jack Raniga
Vice President – Fiji

COMPANY INFORMATION

Company registration number:	116107C
Registered office:	15-19 Athol Street Douglas Isle of Man IM1 1LB
Directors:	Kishore Lulla Vijay Ahuja Sunil Lulla Jyoti Deshpande Dilip Thakkar (Senior Non-executive Director) Naresh Chandra (Senior Non-executive Director) Roger Vakharia (Non-executive Director)
Honorary Life President:	Arjan Lulla
Secretary:	Richard Vanderplank
Auditors:	Grant Thornton PO Box 307 19-21 Circular Road Douglas Isle of Man IM99 2BE

REPORT OF THE DIRECTORS

The directors present their inaugural report together with the audited financial statements for the year ended 31 March 2007.

Principal activity

Eros International Plc, an integrated media and entertainment company, is a global player in the Bollywood arena. Being vertically integrated means that Eros is not only a production house but it also distributes and exploits films across formats globally via cinemas, home entertainment, television and new media formats.

Through acquisitions made in the year the Group boasts an operation that has three decades of market leadership in the media and entertainment business. The Group operates in over 50 countries with worldwide offices in India, UK, USA, Dubai, Australia, Fiji and Isle of Man wherein it has developed its own unique distribution network. It has a business model built around the release of 20–25 new films every year and the exploitation of a valuable film library containing more than 1,300 titles, making it one of the largest content owners in the Indian film sector.

Business review and future developments

The company was incorporated on 31 March 2006 and floated on the Alternative Investment Market of the London Stock Exchange ('AIM') in July 2006. The profit for the year after taxation was $28,320,000.

The Group's strategic intent is to further strengthen its rights content library across a range of media formats and to expand its extensive distribution network. This will be achieved by organic growth, acquisition and the development of new markets.

Further details on future developments and the Group's activities during the year are shown within the Chairman & Chief Executive's Review on page 6 and the Operating & Financial Review on page 16.

Key performance indicators

In the year ended 31 March 2007 the Group's strategy is underpinned by focusing on a number of key financial performance measures. The principal measures are set out below.

- Gross profit before film and content rights amortisation – the aim is to achieve a margin of 70%, in the year the margin was 84%.
- Group operating profit – as the Group grows the aim is to achieve sustainable growth in operating profit. Strict financial management, good people management and strong corporate governance are critical to achieve this aim. Operating profit in the year was $31,031 million.
- Overheads – the overall charge is increasing as the Group expands its activities, but the Group targets that overheads (excluding goodwill amortisation, flotation costs and FRS 20 charges) will not exceed 15% of sales. The Group achieved just under 10% in the year. In future this target will be maintained but to ensure that this measure does not constrain expansion into new business segments, new business segments will be ring fenced for a period of up to 18 months from this measure to allow recruitment of key personnel and the commercial expansion of the Group.
- Dividends – the Group recognises the need to balance the requirement to retain capital to expand the business and shareholders' focus on capital and cash flow returns. For the year ended 31 March 2007 the focus has been on expanding the business and securing longer term returns. In the future it is the Group intention to follow a prudent dividend policy whilst retaining capital to support future business growth.

Directors

The directors of the Company during the year and their interests in the shares of the Company as at 31 March 2006 and 31 March 2007 were as follows:

	Ordinary shares of 10p each		Percentage shareholding at
	31 March 2007	31 March 2006	31 March 2007
V Ahuja* (appointed 11 April 2006)	Up to 84,375,000	2	76.59%
J Deshpande (appointed 11 April 2006)	77,159	–	0.07%
A Lulla (appointed 11 April 2006, resigned 26 June 2006)	–	–	0%
K Lulla* (appointed 11 April 2006)	Up to 84,375,000	2	76.59%
S Lulla* (appointed 11 April 2006)	Up to 84,375,000	2	76.59%
H R Vakharia (appointed 11 April 2006)	29,186	–	0.03%
D Thakkar (appointed 11 April 2006)	–	–	0%
R Vanderplank (resigned 11 April 2006)	–	–	0%
J Killip (resigned 11 April 2006)	–	–	0%
D Webster (resigned 11 April 2006)	–	–	0%

*V Ahuja's, K Lulla's and S Lulla's interests in shares are by virtue of them being potential beneficiaries of a discretionary trust which holds share in the Company.

All directors except as noted above were appointed on 31 March 2006. J Deshpande holds options over 68,782 ordinary shares at an exercise price of £1.76 per share granted on 21 June 2006, which can be exercised up to 30 June 2016. Further detail is provided in the remuneration report.

Following the year end Naresh Chandra was appointed as a non-executive director on 4 July 2007.

REPORT OF THE DIRECTORS

International financial reporting standards
The Group is required to adopt IFRS in the year ending 31 March 2008. Accordingly the first set of statements to be issued under IFRS will be the interim results for the six month period ending 30 September 2007.

It is the intention to adopt IFRS at a Group level only. Our initial interpretation of the standards has led us to believe that, other than the substantive changes to the presentation of primary statements and the accompanying notes under IAS 1 and IAS 14, there will be only a minimal difference between the numbers reported under UK GAAP and IFRS. The principal differences will be under IFRS 3: Business Combinations, Deferred Tax and under IAS 37 we are required to accrue for holiday pay.

Risk management and internal controls
Disclosures can be found in the Corporate Governance section on page 4, the Statement of Directors Responsibilities on page 45 and Note 21 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 30 employees are currently shareholders. 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 2007 the number of days credit taken for purchases by the Company was 30 days.

Placing of shares
In July 2006, the Company successfully placed 15,625,000 new shares for trading on AIM at 176p per share, a premium to the nominal value of 166p.

In December 2006 a further 10,000,000 new shares for trading on AIM were placed at 240p per share, a premium of 230p.

Subsequent to the year end a further placing of 3,304,825 new shares were made on 13 July 2007 at 505p per share, a premium of 495p per share.

Substantial shareholders
As at 27 July 2007, the following notifications had been made by holders of beneficial interests in 3% or more of the Company's issued ordinary share capital:

	Ordinary shares of 10p each	Percentage
V Ahuja*	Up to 78,866,959	69.50%
K Lulla*	Up to 78,866,959	69.50%
S Lulla*	Up to 78,866,959	69.50%
Fidelity Investments International	4,742,579	5.38%

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 impacts where practicable. As part of this policy we:

- ensure that all waste is stored and disposed of responsibly, and recycled where possible; and
- use, where possible, digital means of exhibition and distribution to minimise the impact on the environment of film print and freight delivery.

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

There were no political or charitable donations made in the year.

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.

Auditors

Grant Thornton Chartered Accountants were appointed auditors on 25 May 2006 and retire under the provisions of 12(2) of the Companies Act 1982. A resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held on 28 September 2007.

Jyoti · D

Jyoti Deshpande
Chief Operational Officer & Commercial Director
On behalf of the Board

17 August 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 Company will continue in business.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Isle of Man Companies Act 1931 to 2004. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

REMUNERATION REPORT

The Remuneration Committee comprised two Non-Executive Directors during the year, Dilip Thakkar, who is chairman and Roger Vakharia. 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.

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 the current period the Committee awarded shares to key directors and employees in respect of the placing on AIM – it is not anticipated that this will form part of the ongoing remuneration strategy.

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 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 basic salary 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, to be served no earlier than 12 months from Admission to AIM. The contracts allow for 25 days per annum paid holidays and allows for private medical insurance. The individual salaries specified in each contract are shown within the directors' emoluments table. In the case of Vijay Ahuja his initial contract specified a salary of £140,000 but the Committee subsequently amended this to £190,000 back dated to the start of the contract.

The non-executive directors have both entered into letters of appointment with the Company, which provide them with annual fees of £40,000. 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 2007 (or period that they served as directors during the year) is set out below:

	Salary $'000	Fees $'000	Bonus $'000	Benefits $'000	Shares $'000	Total $'000
Kishore Lulla	537	116	–	6	–	659
Vijay Ahuja	259	116	–	6	–	381
Jyoti Deshpande	167	113	281	6	281	848
Sunil Lulla	259	118	–	3	–	380
Dilip Thakkar	–	78	–	–	–	78
Roger Vakharia	–	76	–	–	–	76
Total	1,222	617	281	21	281	2,422

During his time as a director A Lulla received no remuneration for his services. Following his resignation he was appointed as Honorary Life President for which he received a fee of £200,000 for the year ended 31 March 2007.

O Webster, R Vanderplank and J Killip received no remuneration for their services as directors.

The following director has options over shares as set out below:

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

It is intended that Naresh Chandra will replace Roger Vakharia on the remuneration committee.

CORPORATE GOVERNANCE

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

At 31 March 2007 the Board consisted of four executive directors and two non-executive directors. Dilip Thakkar was the nominated 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.

Board Committees

The Board Committees comprise of the Audit Committee and the Remuneration Committee.

Audit Committee

The Chairman of the Audit Committee is Dilip Thakkar with Roger Vakharia being the other Independent Member. It is intended that Naresh Chandra will replace Roger Vakharia on the committee following his retirement from the Board. 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.
  - Compliance with accounting standards, London Stock Exchange and legal requirements.

The effectiveness of the internal control systems is under constant review and a formal assessment is under way alongside the introduction of the Group's new rights database and accounting system. Although there is no formal internal audit function at present the accounting functions have been subject to periodic internal review.

The Audit Committee also undertakes a formal assessment of the auditors' independence each year. Based on information supplied by the auditors 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 auditors' independence.

In addition, the Committee has approved the external auditors' 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 auditors, the findings of their work and confirmed that all significant matters have been satisfactorily resolved.

Remuneration Committee

During the year the Remuneration Committee comprised Roger Vakharia 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 Chairman and Chief Executive, 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	8	2	2
Kishore Lulla	7	–	–
A Lulla	–	–	–
Vijay Ahuja	7	–	–
Jyoti Deshpande	6	–	–
Sunil Lulla	7	–	–
Dilip Thakkar	5	2	2
Roger Vakharia	5	2	2

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 and financial review. In addition the Company seeks to regularly update shareholders through stock exchange announcements and wider press releases on its activities.

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. As the Group continues to expand, it is expected that an internal audit function will be established but at present the operations do not warrant such a function.

Through an annual comprehensive budget preparation process, detailed quarterly reporting and updates to the annual budget the Board is able to review the Group's performance. The Board approves the annual budget, and it is also involved with reviewing and understanding the reasons for any variations as highlighted by the reporting or revised budgets.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EROS INTERNATIONAL PLC

We have audited the Group and parent company financial statements of Eros International Plc for the year ended 31 March 2007, which comprise the principal accounting policies, the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of recognised gains and losses, the directors' remuneration report and the related notes 1 to 28. These 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 auditors' 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 financial statements in accordance with applicable Isle of Man company law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 46.

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 are 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' transactions with the Company is not disclosed.

We read the directors' report and any other information accompanying the financial statements and consider the implications for our report, if we become aware of any apparent misstatements or inconsistencies within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the United Kingdom 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 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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and the Company's affairs as at 31 March 2007 and of its profit for the year then ended;
- the 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

Grant Thornton
Chartered Accountants
PO Box 307
19-21 Circular Road
Douglas
Isle of Man
IM99 2BE

17 August 2007

PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2007. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On 27 June 2006 the Company acquired 100% of the share capital of Eros Network Limited and Eros Worldwide FZ LLC, both of which had formerly traded under the Eros banner. For the purposes of preparing the financial statements the effective date of acquisition was deemed to be 11 April 2006, the date at which the directors of both Eros Network Limited and Eros Worldwide FZ LLC were appointed to the Board of the Company and the date at which the shareholders of those companies gave an irrevocable undertaking to sell their shareholdings to the Company.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of the subsidiaries acquired are included in the consolidated financial statements from the effective date of acquisition as set out in note 10.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expense are eliminated on consolidation.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 5(1) of the Companies Act 1982.

Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation except those acquired as part of a business combination, which are shown at fair value at the date of acquisition less accumulated amortisation.

Investments in films and associated rights

Investments in films and associated rights, including acquired rights and distribution advances in respect of completed films, are stated at amortised cost less provision for impairment. A charge is made to write down the cost of completed rights over the estimated useful lives except where the exploitation of the rights has not yet commenced.

In respect of work in progress in relation to film productions the asset is shown at purchase price, including appropriate labour costs and other overheads. Where applicable directly attributable financing costs are also included.

Trademarks

A charge is made to write down the cost of trademarks on a straight-line basis over their estimated useful lives of up to 20 years.

The estimated useful life for determining the amortisation charge is reviewed annually and any further provision for impairment is charged against profit and loss in the year concerned.

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.

Other internally generated assets

An internally generated intangible asset arising from the Group's development activities 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.
- The development cost can be measured reliably.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

When these criteria are met, the development 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 to residual values over the useful economic life from the date that they start generating future economic benefits as follows:

	Rate of amortisation % per annum
Software	33

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Revenue recognition

Revenue recognised represents the value of licence fee and includes withholding tax but excludes sales taxes. It is recognised once the following criteria are met:

- There is persuasive evidence of a sale or licensing arrangement agreement.
- The film is complete and available for delivery.
- Collection of the revenue is reasonably assured.
- The fee is fixed and determinable.

The following additional criteria apply in respect of these revenue streams:

- Theatrical – Revenue is stated at the minimum guarantee due, where applicable, plus the Group's share of box office receipts in excess of the minimum guarantee.
- Consumer products – DVD, CD and video revenue is recognised on the date the licence revenue is contracted or declared. Provision is made for returns where applicable.
- New Media – New media revenues are recognised at the earlier of when the content is accessed or declared.

Share based payments

The fair value of share 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 formula, 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.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transactions. Upon settlement, monetary assets and liabilities denominated in foreign currencies are re-translated at the rate ruling on the settlement date. Monetary assets and liabilities denominated in foreign currencies at the year-end are re-translated at the exchange rate ruling at the balance sheet date. Exchange differences arising upon re-translation at the settlement or balance sheet date are dealt with through the profit and loss account. Exchange differences arising on foreign currency borrowings used to provide a hedge against foreign currency investments, including goodwill, are taken directly to reserves.

For consolidation purposes, the trading results and cash flows in foreign currencies, arising in foreign subsidiaries, are translated into the US dollar, which is the Group reporting currency, at average exchange rates for the period. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange differences arising upon consolidation are taken directly to reserves.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided to write off the cost of all fixed assets to their residual value over their expected useful lives calculated on the historical cost of the assets at the following rates:

	Rate of depreciation % per annum
Freehold buildings	2–10
Plant and machinery	13–18
Office furniture, fixtures, equipment and vehicles	15–40

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable net assets. Following initial recognition, the goodwill is carried at cost less accumulated amortisation. The goodwill is amortised over its estimated useful economic life of up to 20 years.

Stock

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

- Finished goods and work in progress – at purchase price, including appropriate labour costs and other overheads.
- Other stocks – at purchase price.

Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion.

Taxation

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.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, in line with the provision in respect of current taxes.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 $'000
Turnover	1	66,441
Cost of sales		(26,502)
Gross profit		39,939
Administrative expenses excluding goodwill amortisation		(6,422)
Exceptional items	2	(1,484)
Goodwill amortisation		(1,002)
Total administrative expenses		(8,908)
Operating profit		31,031
Net Interest payable and similar charges	3	(1,014)
Profit on ordinary activities before taxation	1	30,017
Tax on profit on ordinary activities	5	(1,697)
Profit retained for the year		28,320
Earnings per share		
Basic	6	35.86 cents
Diluted	6	35.79 cents

All transactions arise from acquisitions.

BALANCE SHEETS
AT 31 MARCH 2007

	Note	Group 2007 $'000	Company 2007 $'000
Fixed assets			
Intangible assets			
Goodwill	8	18,205	–
Other intangible assets – software & film and content rights	9	58,125	–
– advances	9	34,304	–
– film productions	9	3,406	–
		114,040	–
Tangible assets	10	2,966	–
Investments	11	–	33,061
		117,006	33,061
Current assets			
Stocks	13	1,376	–
Debtors	14	38,112	58,956
Cash at bank and in hand		46,417	28,480
		85,905	87,436
Creditors: amounts falling due within one year	15	(59,595)	(1,020)
Net current assets		26,310	86,416
		143,316	119,477
Capital and reserves			
Called up share capital	17	20,180	20,180
Share premium account	18	94,613	94,613
Profit and loss account	18	28,523	4,684
Shareholders' funds		143,316	119,477

The financial statements were approved by the Board of Directors on 17 August 2007.

Kishore Lulla
Chairman & Chief Executive Officer

Jyoti Deshpande
Chief Operating Officer & Commercial Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 $'000
Cash inflow from operating activities	25	45,021
Returns from investments and servicing of finance		
Interest received		1,137
Interest paid		(2,193)
Taxation – corporate tax paid		(1,081)
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(277)
Purchase of intangible film rights and related content		(91,988)
Acquisitions		
Net cash acquired	26	(29,110)
Acquisition costs		(256)
Cash outflow before financing		(78,747)
Financing		
Issue of ordinary share capital		81,400
Net cash inflow from financing		81,400
Increase in cash during the year		2,653

OTHER PRIMARY STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

Statement of total recognised gains and losses

	2007 $'000
Profit for the financial year	28,320
Foreign exchange gain on retranslation	148
Total gains and losses recognised since last financial statements	28,468

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

1 Turnover and profit on ordinary activities before taxation
The Group's activities are in one business segment, the acquisition and distribution of film and related content, and there are no other significant classes of business.

The analysis of turnover, profit before taxation and net assets by geographic segment has not been disclosed as the directors consider this disclosure would be seriously prejudicial to the interest of the business.

The profit on ordinary activities before taxation is stated after:

	2007 $'000
Depreciation of owned property, plant and equipment	313
Amortisation of goodwill on consolidation	1,002
Amortisation of intangible assets	16,275
Operating lease rentals – rent and equipment	411
Exchange movement on foreign currency borrowings	456
Auditors' remuneration	
– fees payable for the audit of the Company's annual accounts	92
– fees payable for the audit of the Company's subsidiaries	115
– tax compliance	45
– other advisory services	43

$1,430,000 was paid to the Group auditors during the year in relation to them acting as Reporting Accountants in relation to the Group's Admission to AIM. This cost has been charged to the share premium account.

2 Exceptional items
The exceptional items were incurred in respect of the placing on AIM and include professional advisors fees and other costs not charged to the share premium account including a charge for the issue of shares to employees and one director (as set out in the remuneration report).

3 Net interest payable and similar charges

	2007 $'000
Interest payable and similar charges	
On bank overdrafts and loans	2,287
Other interest	43
Interest element of finance leases	25
	2,355
Less: interest on film productions transferred to work in progress	(162)
	2,193
Other interest receivable and similar income	(1,179)
	1,014

4 Directors and employees
Staff costs during the year were as follows:

	2007 $'000
Wages and salaries (including executive directors' remuneration)	4,547
Social security costs	326
Pension costs	15
	4,888

The average number of employees of the Company during the year, including executive directors, was:

	2007 Number
Sales, marketing and distribution	60
Administration	36
Development	37
	133

Disclosure of directors' remuneration is set out in the Remuneration Report on page 46.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2007

5 Tax on profit on ordinary activities
The tax charge is based on the profit for the year and represents:

	2007 $'000
Mainstream corporation tax for the year	1,442
Foreign tax for the year	17
Total current tax	1,459
Deferred tax (see note 16)	238
	1,697

	2007 $'000
The tax assessed for the period is higher than the standard rate of corporation tax in the Isle of Man. The differences are explained as follows:	
Profit before taxation	30,017
Profit on ordinary activities multiplied by standard rate of corporation tax in the Isle of Man of 0%	–
Effect of:	
Expenses not deductible for tax purposes	125
Capital allowances for the period less than depreciation	8
Other short term timing differences	4
Differences in tax rates	1,397
Utilisation of tax losses	(75)
	1,459

6 Earnings per ordinary share
The calculation of the basic earnings per ordinary share is based on the consolidated profit after tax for the year of $28,320,000 and on 78,980,157 shares being the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share calculation is based on the basic earnings per share calculation as noted above except that the weighted average number of shares includes all dilutive options granted by the balance sheet date as if those options had been exercised on the date of grant giving a weighted average of 79,135,057.

On this basis the earnings per share and diluted earnings per share for the year ended 31 March 2007 were 35.86 cents and 35.79 cents respectively.

7 Intangible fixed assets

	Total $'000
Goodwill (see note 8)	18,205
Other intangible assets (see note 9)	95,835
	114,040

8 Goodwill

	Total $'000
Cost	
Arising on acquisition of subsidiaries	19,207
At 31 March 2007	19,207
Amortisation	
Charge for the year	1,002
At 31 March 2007	1,002
Net book amount at 31 March 2007	18,205

The goodwill arises on the acquisitions as detailed in note 12. The directors consider that the goodwill has an estimated useful life of 20 years.

9 Intangible assets

	Software $'000	Film and content rights $'000	Content advances $'000	Film Productions $'000	Total $'000
Cost					
Additions	1,193	54,090	33,299	3,406	91,988
Acquired on acquisition of subsidiaries	8	17,429	2,575	–	20,012
Transfers	–	1,570	(1,570)	–	–
Foreign exchange movement	–	334	–	–	334
At 31 March 2007	1,201	73,423	34,304	3,406	112,334
Amortisation					
Charge for the year	76	16,199	–	–	16,275
Foreign exchange movement	–	224	–	–	224
At 31 March 2007	76	16,423	–	–	16,499
Net book amount at 31 March 2007	1,125	57,000	34,304	3,406	95,835

Content advances relate to amounts paid to secure the rights in a film that is in the course of production or has not yet been delivered. Upon the rights passing to the Group the amounts paid are transferred to film rights.

Film Productions, comprises films in production, which includes $162,000 of financing cost directly related to the funding of the costs of production.

10 Tangible fixed assets

	Freehold buildings $'000	Plant and machinery $'000	Office furniture, fixtures, equipment and vehicles $'000	Total $'000
Cost				
Additions	13	1	246	260
Acquired on acquisition of subsidiaries	2,096	2,077	1,391	5,564
Disposals	–	–	(2)	(2)
Exchange movement	6	63	27	96
At 31 March 2007	2,115	2,141	1,662	5,918
Depreciation				
Charge for the year	48	123	142	313
Acquired on acquisition of subsidiaries	233	1,458	884	2,575
Exchange movement	2	46	16	64
At 31 March 2007	283	1,627	1,042	2,952
Net book amount at 31 March 2007	1,832	514	620	2,966

As at 31 March 2007, the Group had no capital commitments contracted, but not provided for the acquisition of property, plant and equipment.

11 Investments

	Subsidiary undertaking $'000
Cost	
Additions	33,061
At 31 March 2007	33,061

11 Investments continued

During the year, the Group acquired the following subsidiaries:

	Date	Country of incorporation	% of voting rights held
Eros Network Limited	June 06	UK	100
Eros International Limited	June 06	UK	100
Eros Entertainment Inc	June 06	USA	100
Eros Music Publishing Limited	June 06	UK	100
B On Demand (EU) Limited	June 06	UK	100
Eros Worldwide FZ LLC	June 06	UAE	100
Eros Multimedia Pvt Limited	June 06	India	100
Shivam Videotech Pvt Limited	June 06	India	100
Eros Pacific Limited	June 06	Fiji	100
Eros Australia Pty. Limited	June 06	Australia	100
Big Screen Entertainment Pvt Limited	January 07	India	64.6

All the companies were involved with the acquisition and distribution of film content and associated media with the exception of Big Screen Entertainment Pvt Limited, which is involved in film production. All the companies are indirectly owned with the exception of Eros Network Limited, Eros Worldwide FZ LLC and B on Demand (EU) Limited.

The Group has an option to acquire Acacia Investments Holdings Limited ('Acacia'), a company which is ultimately owned by a discretionary trust of which Kishore Lulla, Vijay Ahuja and Sunil Lulla are amongst the potential beneficiaries. Acacia beneficially owns not less than 24% of L.M.B. Holdings which through its subsidiaries operates two satellite television channels B4U Music and B4U Movies. The option is carried at $nil although the purchase price for the option shares in Acacia is $9,570,000, which represents a 10% premium to the par value of the shares it holds in L.M.B. Holdings, plus interest accrued at 2% above Barclays Base Rate from 27 June 2006 up to the date that the option shares are acquired. The Option is exercisable for a period up to 26 June 2008 or, if earlier, within six months of a change of control of L.M.B. Holdings or within one month of its flotation.

As neither the Group, Acacia nor the directors of the Company are involved with the day to day operations of L.M.B Holdings and have not been provided with any management reports or accounts. It is not possible to disclose whether the option is a contingent asset or if the option will be exercised. Furthermore the fair value cannot be measured reliably nor can the Company estimate a range of estimates within which the fair value of the option is likely to lie.

The Group also holds two million shares in New Media Enterprises Inc a company registered in Nevada in the USA, whose shares are traded on the OTC Bulletin Board in the United States on a matched bargain basis. It is carried at a cost of $nil and the directors are of the opinion that the market value does not materially differ at this time.

12 Acquisitions

On 27 June 2006 the Company acquired 100% of the share capital of Eros Network Limited and Eros Worldwide FZ LLC, both of which had formerly traded under the Eros banner. For the purposes of preparing the financial statements the effective date of acquisition was deemed to be 11 April 2006, the date at which the directors of both Eros Network Limited and Eros Worldwide FZ LLC were appointed to the Board of the Company and the date at which the shareholders of those companies gave an irrevocable undertaking to sell their shareholdings to the Company.

The consideration, including acquisition costs, for the subsidiaries acquired as part of the bringing together of the various entities that traded under the Eros banner but separately owned was $33,061,000. The acquisitions principally comprised acquisition of Eros Network Limited and its subsidiaries and Eros Worldwide FZ LLC and its subsidiaries. The summary of the net assets acquired and the goodwill arising is set out below:

Eros Network Limited and its subsidiaries – provisional net assets/(liabilities) acquired:

	Book value acquired $'000	Fair value $'000	Accounting policy $'000	Fair value of net assets/ (liabilities) $'000
Other intangible assets – software & film and content rights	9,020	–	–	9,020
Tangible fixed assets	1,956	–	–	1,956
Debtors	19,349	(173)	–	19,176
Stocks	2,212	(803)	(250)	1,159
Cash and cash equivalents	247	–	–	247
Creditors	(31,860)	(72)	–	(31,932)
Net assets	**924**	**(1,048)**	**(250)**	**(374)**
Purchased goodwill				**6,780**
				6,406
Satisfied by:				
Shares issued				**6,406**

12 Acquisitions continued

Eros Worldwide FZ LLC and its subsidiaries – provisional net assets/(liabilities) acquired:

	Book value acquired $'000	Fair value $'000	Accounting policy $'000	Fair value of net assets/ (liabilities) $'000
Other intangible assets – software & film and content rights	3,810	4,607	–	8,417
Other intangible assets – film advances	3,614	(1,039)	–	2,575
Tangible fixed assets	1,016	–	–	1,016
Investments	10	–	–	10
Debtors	24,663	(301)	–	24,362
Stocks	297	–	–	297
Cash and cash equivalents	2,865	–	–	2,865
Creditors	(25,023)	(231)	–	(25,254)
Net assets	**11,252**	**3,036**	**–**	**14,288**
Purchased goodwill				**12,427**
				26,715
Satisfied by:				
Shares issued				26,400
Direct costs of acquisition				315
				26,715

The principal companies acquired in the above acquisition, which is accounted for under the acquisition method of accounting, were Eros Network Limited and Eros Worldwide FZ LLC. A list of the subsidiaries acquired with these undertakings is shown below:

Eros International Limited
Eros Entertainment Inc
Eros Worldwide FZ LLC
Eros Multimedia Pvt Limited
Shivam Videotech Pvt Limited
Eros Pacific Limited
Eros Australia Pty. Limited

The accounting reference date of all the subsidiaries acquired is 31 March. The profit after tax and minority interests for the year ended 31 March 2006 for the two entities acquired are shown in the table below:

	$'000
Eros Network Limited	1,456
Eros Worldwide FZ LLC	15,786

There were no material transactions in the period 1 April 2006 to 11 April 2006 in the two entities acquired.

The fair value adjustments of film rights included with intangible fixed assets has been determined by reference to the original acquisition cost of those rights from third parties and their year of acquisition, with all rights being amortised in accordance with the profile that is adopted by the Company.

The fair value adjustments in relation to trade and other receivables and creditors relate to reviews carried out at the date of acquisition of current assets and liabilities. The accounting policy adjustment in relation to inventory relates to an adjustment required to bring the figures in line with the Company's policy in relation to theatrical print stocks.

On 14 January 2007, the Company acquired 64.6% of the share capital of Big Screen Entertainment Pvt Limited. The consideration was $1,000 and the net assets acquired were $nil. No table of fair values has been presented as the acquisition and any fair value adjustments made were immaterial.

13 Stocks

	Group 2007 $'000
Finished goods	1,371
Raw material	5
	1,376

14 Debtors

	Group 2007 $'000	Company 2007 $'000
Trade debtors	29,775	–
Amounts due from Group undertakings	–	58,767
Deferred taxation	396	–
Other debtors	7,376	67
Prepayments and accrued income	565	122
	38,112	58,956

15 Creditors: amounts falling due within one year

	Group 2007 $'000	Company 2007 $'000
Bank loans and overdraft	43,764	–
Trade creditors	9,629	275
Amounts due to Group undertakings	–	83
Corporation tax	561	–
Other taxation and social security	1,781	–
Other creditors	2,264	–
Accruals and deferred income	1,596	662
	59,595	1,020

As at 31 March 2007, bank loans in Eros Multimedia Pvt Limited and Shivam Videotech Pvt Limited, the Group's two Indian subsidiaries, comprised term loan and working capital facilities. These facilities are secured by a charge over the assets, including intangible assets, of the Company. Those are further secured by equitable mortgage of the Company's immovable properties and two properties of the directors.

The credit facilities in subsidiaries in the UK comprise working capital overdraft and overdrafts against bills of exchange. These facilities are secured by a fixed and floating charge on the properties and assets of Eros International Limited.

The Group's US facilities are secured by a fixed and floating charge over the assets of the US subsidiary, Eros Entertainment Inc.

All borrowings fall due in less than one year.

16 Deferred taxation

The deferred tax asset is set out below.

	2007 $'000
Accelerated capital allowances	
Other timing differences	238
Tax losses arising on acquisition of subsidiary undertakings	158
	396
At 1 April 2005	–
Movement during the year	396
At 31 March 2007	396

17 Called up share capital

	Number of shares	£'000
Authorised		
At 31 March 2006	20,000	2
At 26 June 2006	199,980,000	19,998
200,000,000 ordinary shares of 10p each	200,000.000	20,000

17 Called up share capital continued

Allotted, called up and fully paid	Number of shares	2007 $'000
At 31 March 2006	2	–
Allotment of shares on 27 June 2006	8,822	2
Allotment of shares in respect of acquisition of Eros Network Limited on 27 June 2007	235	–
Allotment of shares in respect of acquisition of Eros Worldwide FZ LLC on 27 June 2007	941	–
Bonus issue of shares on 27 June 2006	87,205,909	15,871
Allotment on placing of shares on 4 July 2006	12,784,091	2,327
Allotment of employee shares on 22 November 2006	160,824	30
Allotment on placing of shares on 5 December 2006	10,000,000	1,950
As at 31 March 2007	110,160,824	20,180

During the year the share allotments were as follows:

- On incorporation two ordinary shares were allotted as par.
- On 27 June 2006, 8,822 ordinary shares were issued at par.
- On 27 June 2006, 1,176 ordinary shares were issued at a premium of £15,327.33 per share for a total consideration of £18.03 million ($32.81 million) in respect of the acquisitions of Eros Network Limited and Eros Worldwide FZ LLC.
- Additionally on 27 June 2006, 87,205,909 ordinary shares were issued by way of a bonus issue for nil consideration, the par value being debited to the share premium account.
- On 4 July 2006, 12,784,091 ordinary shares were allotted by way of a placing at £1.76 per share, a premium of £1.66. The gross placing proceeds were £22.50 million ($40.95 million).
- On 22 November 2006, 160,824 shares were allotted to employees of the Company as a bonus at a premium of £1.835 per share for a total consideration of £311,194 ($588,157).
- On 5 December 2006, 10,000,000 ordinary shares were allotted by way of a placing at £2.40 per share, a premium of £2.30. The gross placing proceeds were £24 million ($46.80 million).

18 Share premium and reserves

	Share capital $'000	Share premium $'000	Profit and loss account $'000	Total $'000
Group				
At 31 March 2006	–	–	–	–
Gain on foreign currency exchange	–	–	148	148
Profit for the year	–	–	28,320	28,320
Credit in respect of employee share schemes	–	–	55	55
Issue of new shares	20,180	100,965	–	121,145
Share issue expenses	–	(6,352)	–	(6,352)
At 31 March 2007	20,180	94,613	28,523	143,316

	Share capital $'000	Share premium $'000	Profit and loss account $'000	Total $'000
Company				
At 31 March 2006				
Profit for the year	–	–	4,684	4,684
Issue of new shares	20,180	100,965	–	121,145
Share issue expenses		(6,352)	–	(6,352)
At 31 March 2007	20,180	94,613	4,684	119,477

As permitted by Section 5(1) of the Companies Act 1982, the Company profit and loss account of Eros International Plc is not presented as part of these accounts. The profit for the financial year is shown in the table above.

19 Reconciliation of movements in shareholders' funds

	Group $'000	Company $'000
Profit for the financial year	28,320	4,684
FRS 20 Share based payment	55	–
Exchange differences	148	–
	28,523	4,684
Issue of new shares	20,180	20,180
Premium on issue of shares (net of expenses)	94,613	94,613
Net increase in shareholders' funds	143,316	119,477
Shareholders' funds at 31 March 2006	–	–
Shareholders' funds at 31 March 2007	143,316	119,477

20 Share based payments

The following table shows the outstanding options to help assess the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

Date of grant	Exercise price	Period exercisable in normal circumstances	Number
21 June 2006	£1.76	June 2006 to June 2016	206,346

The plan, which is open to three individuals, is subject to the continued employment of the individuals and the options granted have a maximum contracted life of six years.

A charge has been made in the year of $51,000 to reflect the fair value to the Group of issuing employee share options. This charge has been calculated by applying fair value to the options issued and spreading that charge evenly over the relevant vesting period, which is split evenly into five tranches in each year until June 2010. The fair value has been calculated using the Black Scholes model and the inputs to the model are as follows:

Expected Life (years)	4
Share price and Strike price (£)	1.76
Volatility (%)	40.00
Dividend yield (%)	0.00
Risk free interest rate (%)	4.28

The expected volatility was based upon the media volatility of a FTSE Small Cap company. This was selected because it comprises, on the whole, larger companies than on AIM, which are more similar in size to the Group.

Using this method of calculation the weighted average fair value of shares issued during the year is £0.47.

21 Financial instruments

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 debtors, 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 debtors and advances are net of allowances for doubtful debts based upon management's expectations, known commercial issues and an assessment of the local current economic environment and practices. 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 risk 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 received during the year substantial inflows of funds in Sterling as a result of the placing of shares on the London Stock Exchange. These almost entirely converted into US Dollars over a period of time using dual currency contracts and foreign currency trades based upon the underlying foreign exchange rates at the time of the placings.

The Group has identified that in the future 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. A borrowings analysis by currency is provided below.

	US Dollars $'000	Indian Rupee $'000	Total $'000
Borrowings	32,573	11,171	43,744

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 the Group had net surplus funds of $2.64 million. This was made up of cash and cash equivalents of $46.39 million and gross working capital borrowings of $43.75 million.

In addition to the net surplus funds the Group has undrawn committed facilities of $8.87 million as at 31 March 2007.

Interest rate risk

The Group working capital borrowings are all at floating rates. The Board has identified that in the event that long term borrowings are taken out, in the future it will review the level of floating and fixed rate in order to mitigate interest rate risk.

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.

Short-term debtors and creditors

Short-term debtors and trade creditors have been excluded from all disclosures provided in this note, with the exception of currency risk disclosures.

21 Financial instruments continued

Currency risk

Group companies do not have material, un-hedged monetary assets or liabilities in currencies other than local currencies.

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than US dollars:

	$'000
Pounds sterling	17,022
Indian rupees	24,973
Euro	1,042
Other	110
	43,147

22 Contingent liabilities

As at 31 March 2007 the Group and Company have no contingent liabilities.

23 Operating leases

As at 31 March 2007, the Group has annual non-cancellable operating lease commitments in respect of rent, office equipment and motor vehicles expiring as follows:

	Plant and equipment $'000	Land and buildings $'000
Within one year	7	–
Within two to five years	31	387
	38	387

24 Related party transactions

	Details of charges	Charges $'000	Debtors/ (creditors) $'000
Arjan Lulla	President fees	413	(463)
Sunil Lulla – Director		–	(149)
Roger Vakharia	New media consulting fees	97	–
550 County Avenue	Rent	270	127
Beech Investments Limited		–	257
Deposits against property guarantee of Lulla family	Guarantee fee	225	2,113
Lulla family	Rent	23	187
Advance to Big Screen Investment Pvt Ltd		–	4,015

550 County Avenue Inc is a company from which Eros Entertainment Inc leases its offices. It is a related party by virtue of S Lulla, K Lulla and V Ahuja having an interest as a result of them being potential beneficiaries of a discretionary trust which owns the company. The amounts charged in the year relate to the annual lease rental. The year end debtor relates to the six month rent deposit held by 550 County Avenue.

The Group enjoys the benefit of a number of working capital loans and facilities which have been provided by the Oriental Bank of Commerce and the Indian Overseas Bank. In addition to charges over the assets of two group companies, Eros Multimedia Pvt Limited and Shivam Videotech Pvt Limited, the lending is also secured over certain assets owned by the Lulla family. Members of the Lulla family receive a guarantee fee payment and also hold a guarantee deposit in relation to charges granted on their personal assets.

The rent paid to the Lulla family relates to two properties in Mumbai owned by the family which are rented under Licence by Eros Multimedia Pvt Limited. The year end balance of $187,000 relates to the rent deposit of 7.5 million Indian Rupees.

The balance owed by Beech Investments Limited, which is ultimately owned by a discretionary trust of which Kishore Lulla, Vijay Ahuja and Sunil Lulla are amongst the beneficiaries, as at the year end 31 March 2007 arose from costs and expenses in relation to the IPO and was repaid in full subsequent to the year end.

The new media consulting fees paid to Roger Vakharia arose out of services provided to the Group in respect of specific advice on strategic contracts.

25 Reconciliation of operating profit to net cash inflow from operating activities

	2007 $'000
Cash flow from operating activities	
Operating profit	31,031
Depreciation of tangible fixed assets	313
Share based payment charges	588
Decrease in debtors	4,990
Decrease in stocks	80
Decrease in creditors	(9,258)
Amortisation of intangible fixed assets	16,275
Amortisation of goodwill	1,002
Net cash inflow from operating activities	45,021

26 Movement in net cash and net funds

	Acquisitions $'000	Cash flow $'000	At 31 March 2007 $'000
Cash in bank and in hand cash flow	3,112	43,305	46,417
Bank loans and overdrafts cash flow	(32,222)	(11,542)	(43,764)
Net Funds	(29,110)	31,763	2,653

27 Reconciliation of net cash inflow to movement in net funds

	2007 $'000
Cash flow from operating activities	
Increase in cash in the year	46,417
Cash outflow from increase in deposits at bank	(11,542)
Cash outflow from movement in debt	(32,222)
Net funds at 31 March 2007	2,653

28 Acquisitions' contributions to Group cash flows

With the exception of a negative cash flow from operating activities of $1,207,000, a positive cash flow of $81,400,000 from financing and interest received of $891,000 all cash flows related to the acquisitions acquired in the year.

UNAUDITED INFORMATION: PRO FORMA AGGREGATED PROFIT AND LOSS
FOR THE YEAR ENDED 31 MARCH 2007

The pro forma results for the trading activities of the various Eros entities that are now included in the consolidated results following the acquisitions in June 2006, are shown below for comparative purposes.

The pro forma information set out below is unaudited.

	Notes	2006 $'000
Turnover:		44,722
Less: Share of joint ventures turnover	2	(1,949)
		42,773
Film content and other rights amortisation		(10,564)
Other cost of sales		(5,267)
Total cost of sales		(15,831)
Gross profit		26,942
Administrative expenses		(5,948)
Operating profit		20,994
Share of operating loss of joint venture	2	(122)
Net interest payable and similar charges		(2,437)
Profit on ordinary activities before taxation		18,435

1 Pro forma aggregated results

The pro forma aggregated results for the year ended 31 March 2006 comprise the aggregation of the results of Eros Network Limited and its subsidiaries, Eros Worldwide FZ LLC and its subsidiaries, Eros Digital Pvt Limited and B on Demand (EU) Limited for the year on the basis of the current accounting policies. Additionally the results of Eros Media Limited, Evron Limited, Windmill Corporation Limited and Stanning Corporation whose trade and assets were acquired by Eros Worldwide FZ LLC have been included within the aggregation.

2 Joint venture

In the pro forma aggregated results for the year ended 31 March 2006 the operations of Eros Entertainment Inc to 7 October 2006, when the balance of the shares not previously held by Eros Network Limited and its subsidiaries were acquired, were accounted for as a joint venture undertaking.

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