

Factual Findings of Independent Review

The Audit committee of the Board of Directors (the “Audit Committee”) of **Zee Entertainment Enterprises Ltd.’s (ZEE)** had appointed an independent firm to review related party transactions and film advances for content acquisition for the financial year ended 31 March, 2019 and half year ended 30 September, 2019. The aforesaid review was undertaken under Standard on Related Services SRS 4400 ‘Engagements to perform Agreed Upon Procedures regarding Financial Information’ issued by the Institute of Chartered Accountants of India. The report prepared by them was tabled before the Committee.

The said report along with the conclusion of Audit Committee was placed before the Board of Directors of Zee wherein they found that the exceptions noted were not significant and therefore there were no irregularities either in Related Party Transactions or in advances/deposit for Film acquisition that would lead to any additional disclosure or adjustment. The management presented action steps, wherever required, to enhance the internal controls and the action steps were also noted by the Board of Directors for regular monitoring.

Key procedures¹, findings and action steps in relation to film advances are as below:

Scope of work for film advances (including deposits):

- a. Verify agreements/memorandum of understanding, vendor KYC documents, and execution of documents as per SOP for specified vendors,
- b. Trace top five payments to bank and whether payments are made to bank account as per vendor KYC documents obtained by the Company for specified vendors,
- c. Trace invoices submitted by vendor to underlying agreements and verify films have been included in the inventory schedule as per the invoice and agreement for specified vendors,
- d. Verify the remaining life of films from the release date as per the Copyrights Act, 1957, for films acquired by the Company from sub-agents,
- e. Verify whether current directors of sub-agents are related to the Company and/or any of its affiliates
- f. Inventory impairment process is consistent with SOP and the Company’s accounting policy, and
- g. Verify transaction history with specified vendors and their sub-agents, including management’s evaluation on recoverability of the amount receivable.

¹ Scope of agreed-upon-procedures presented is summarized for reference.

- **Finding no. 1**

It was noted that 100 percent consideration for potential purchases was paid as advances upon execution of the MOUs' by the Business Head. The management informed that the Business Head had executed the MOUs' based on the Film Acquisition Form (FAF) approved and signed by the CEO & MD and CFO.

Action Step to strengthen the process

The management noted that going forward all arrangements, including MOU, will be executed in a standardized template created by internal legal team and signed by respective Business Heads/CFO/CEO & MD (as per Delegation of Authority) and Legal Head.

- **Finding no. 2**

It was noted that acquisition of certain films within bouquet were aged more than 60 years from the date of release, aggregating to INR 363 million and further, films aged nearing 60 years from the date of release aggregated to INR 108 million. The management had determined the fair price of the entire bouquet to the films acquired based on its monetization potential at the time of purchase of these films.

Action Step to strengthen the process

The total value ascribed to the derivative rights as noted in the finding represents 5.5% and 1.5% of the total sampled inventory purchased during the review period and total inventory as at 30 September 2019, respectively. Going forward the Company will maintain documentation of analysis of monetization by each film within the bouquet and will allocate the price to films based on such analysis.

- **Finding no. 3**

In case of film advances (including deposits) made during the period 1 April 2018 to 30 September 2019, there were no common directors between the content vendors and the Company and its related entities. However, the aforesaid content vendors had common directors.

Action Step to strengthen the process

It was concluded that no further action was required.

- **Finding no. 4**

Non-compliance with Standard Operating Procedure (SOP) to test impairment of inventory having net carry value > INR 100 million as at 30 September 2019. No exception was noted except that in line with the Company's consistent practice, impairment assessment is not made in the first year of telecast of the inventory or the year of purchase of the inventory although carrying value exceeds INR 100 million.

Action Steps to strengthen the process

The management will make suitable amendment to the SOP to exclude inventory in the first year of telecast or purchase or those with carrying value less than INR 100 million.

- **Finding no. 5**

The Committee noted that the Company did not amortize the film inventory (net of impairment) in subsequent years which was partially impaired. However, it noted that the film inventory, including those partially impaired, were tested for impairment at each reporting date.

The audit committee noted that the aforesaid method applied were in accordance with Ind-AS 38, Intangible Assets.

- **Finding no. 6**

It was noted that the transactions with content aggregators/producers selected for review had increased between 2-3 times of the transactions in historical period of past four years. The Committee noted the strategic reasons for the increase in inventory:

- *Transactions are done with entities who have 2-3 decades experience in the film acquisition business with no history of credit risk*
- *The increase in volume is in wake of multiple reasons*
 - *digital expansion strategy of the company in view of its OTT product ZEE5 launched in Feb 2018,*
 - *launches of new movie channels in regional languages, and*
 - *increasing prices of movies due to competition of global OTT players*

Action Step to strengthen the process

This matter has been detailed in Note No. 47 in the audited standalone financials and note No. 42 of the audited consolidated financials of year ending on 31 March 2019 where the rationale and the nature of the transaction has been explained. In cases of refunds taken due to non-adherence to terms of MOU, necessary interest has also been recovered. Necessary controls have been since implemented to strengthen this process which has been drawn attention in the said Annual Report for year ended 31 March 2019. The management also informed the Board that Risk Committee of the Company had strengthened film advances policy applicable from 1 July 2019, by capping the amount of advance payable to a defined percentage and linking remaining payment on achievement of pre-defined milestones. No exceptions were noted in respect of the any advances given subsequent to 1 July 2019 during the period under review.

Key procedures² undertaken, findings and action steps in relation to Related Party Transactions

Scope of work undertaken for verification of Related Party Transactions:

- a. Obtain signed copy of the Board, Audit Committee and CSR Committee meeting minutes held during 1 April 2018 to 30 November 2019 and calculate the number of days taken to sign minutes of the meeting by respective Chair of the meetings. Report instances where the number of days taken were more than 30 days,
- b. Verify following with respect to related party transactions, other than subsidiaries, during the period 1 April 2018 to 31 March 2019 exceeding specified threshold:
 - Agreement between the Company and related party,
 - Approval by Board,
 - Transactions within monetary limit approved by the Board, and
 - Arm's length pricing performed by the Company and certified by internal auditors has been approved by the Audit Committee
- c. Verify transaction history with DPO, including management's evaluation on recoverability of the amount receivable.

² Scope of agreed-upon-procedures presented is summarized for reference.

- **Finding no. 1**

Signed copy of the Board, Audit Committee and CSR Committee meeting minutes held during the period 1 April 2018 to 30 November 2019 were reviewed to report instances where the minutes of the meeting are not signed in by the Chairman on a timely basis and noted only a single exception of delay wherein minutes were signed subsequently due to fine tuning in the language required.

No further action was required.

- **Finding no. 2**

With respect to business with one of the DPO's, the factual finding report contained the following observations:

- 56% of the account balance with its subsidiaries outstanding as at 30 September 2019 is in >180 days bucket which has increased from ~48% as at 31 March 2019.
- The collection to revenue ratio as at 31 March 2019 and 30 September 2019 continues to be at ~61%.
- Average collection days has increased to 416 days as at 30 September 2019 compared to 382 days as at 31 March 2019
- As at 30 September 2019, the Company has not created any valuation allowance for account balance of the DPO and its subsidiaries.
- 22% of account balance as at 30 September 2019 is overdue for more than 365 days.

Action Step to strengthen the process

The Audit Committee and Board are closely monitoring collection and financial performance of this DPO customer each month. This customer has been a distribution partner with strategic importance and helps to maintain reach and penetration thereby to support the advertisement and subscription revenue of the Company. The financial performance of the customer improved however, due to its prior committed repayment schedule, customer is not able to pay in time. The customer has assured that it is working with banks to restructure its repayment schedule which will help to clear the Company's outstanding in FY21/22. The management will continue to monitor progress and report significant events, that could impact its collectability from the customers, hence result in expected credit loss.



Extraordinary Together

Conclusion

Based on the detailed review of the factual findings, root cause analysis and action steps undertaken by the management and results of most recent statutory audit, including audit of internal financial controls, the Board of Directors concluded that no inconsistencies existed in respect of transactions with content vendors and related parties during the period under review.

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