



How do you build
a leading international
media and entertainment
business?

2000 ANNUAL REPORT



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analyze this



Since starting out as a cinema operator in 1954, Village Roadshow has evolved into a diversified, international media and entertainment company.

Early in its development the company expanded its cinema network and strengthened its strategic position by entering the vertically related businesses of film distribution and film production. The group now has a strong position across each.

In the late eighties Village Roadshow identified significant growth opportunities in both theme parks and radio and funded subsequent investments through a 'back door' listing and additional capital raisings.

By the early nineties the company had purchased and redeveloped the Austereo and Triple M radio networks transforming them into Australia's foremost radio operation. In other major developments, the group has also helped create Australia's most successful theme park operation.

Around the same time, the company sought to export its cinema development and management expertise internationally. This has led to the development of high quality cinema circuits in selected territories including Australia, Greece, Singapore and Argentina.

Through the nineties the development of its production division has seen the company emerge as one of the leading independent movie producers in Hollywood. With success including *The Matrix* and *Space Cowboys*, the division is now a significant contributor.

Today, Village Roadshow's portfolio of media and entertainment businesses uniquely positions the group to benefit from the strong growth in leisure and entertainment spending.



THREE KINGS

A CLEAR STRATEGY AND A FOCUS ON CORE ACTIVITIES

FILM

RADIO

THEME PARKS

NEW MEDIA

Village Roadshow is uniquely positioned to generate sustained long-term growth. The company has encountered some challenges over the year and is aggressively dealing with each. Despite these challenges, its cash flows are robust and its core businesses possess significant growth opportunities. Accordingly, looking to the future, the group is confident of further success.

This report outlines Village Roadshow's performance, strategies and the reasons for this confidence.

Financial Highlights

Net profit before abnormals \$76.5 million,
1.4 per cent higher over the year

Profit after abnormals up 178 per cent
or by \$48.3 million

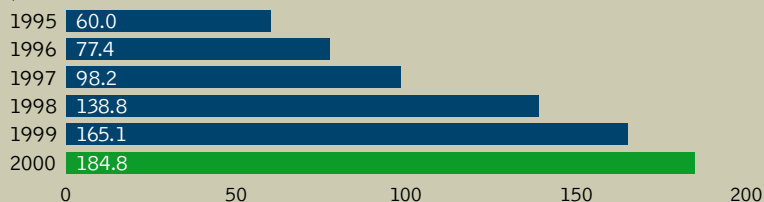
Earnings (reported EBITDA) increased
12.0 per cent

Strong contribution from radio, consistent return
from theme parks and lower results from film

Return on equity maintained at 7.3 per cent

\$'000	2000	1999	% Change
Sales revenue	623,790	617,265	1.1%
Reported EBITDA	184,815	165,086	12.0%
Operating profit after tax before abnormal items	76,503	75,418	1.4%
Operating profit after tax and abnormal items	75,517	27,170	178%
Total shareholders' equity	1,029,254	1,017,225	1.2%
Dividends per share (cents)			
Ordinary shares	7.175	10	-28.3%
A-class preference shares	10.175	13	-21.7%
Total earnings per share pre-abnormals (total shares) (cents)	16.75	17.33	-3.3%
Return on average shareholders' equity	7.3%	7.2%	-
Net tangible assets per share (\$)	2.08	1.92	8.3%

\$million

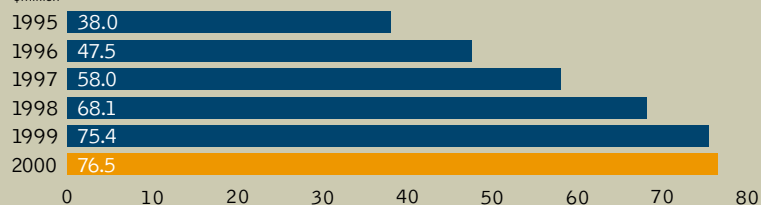


Earnings

(Reported EBITDA – Earnings before interest, tax, depreciation and amortisation)

- Growth momentum maintained
- Strong radio EBITDA contribution up 23.1 per cent
- Higher exhibition revenues consistent with screen investment
- Compound average growth over last six years 20.6 per cent

\$million



Profit After Tax Before Abnormal Items

- Profit marginally higher over year
- Strong earnings offset by increased depreciation and amortisation
- Strong radio profits offset by poor result from film division
- Compound average growth over six years 12.4 per cent

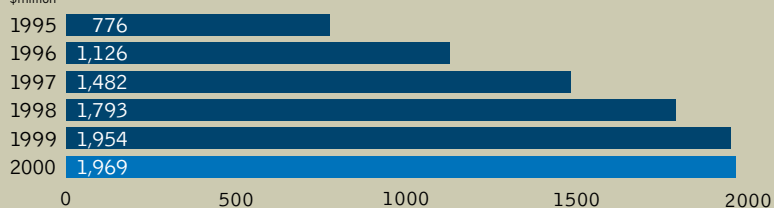
cents



Earnings Per Share Before Abnormal Items

- EPS lower due to an increase in shares on issue
- Increase in shares on issue from dividend reinvestment and conversion of PRIDES

\$million



Total Assets

- Asset base little changed over year
- Expanded cinema circuit by 289 screens (excluding asset sales)
- Growth offset by significant asset sales
- 16.8 per cent compound average growth over six years

Facing up to the challenges of the year, Village Roadshow has ended 1999/2000 with a sound result and a stronger strategic footing.

Dear Shareholders

CHAIRMAN AND MANAGING DIRECTOR'S MESSAGE



John Kirby & Graham Burke

It has been a tough year for Village Roadshow. Cinema exhibition has suffered a global downturn and the company has not been immune from its impact. Nevertheless, the urgency and vigour applied to dealing with this challenge, combined with the strength of our other core media and entertainment businesses has enabled the group to end the year with a sound result and a stronger strategic footing.

Profit after tax and before abnormals of \$76.5 million was 1.4 per cent higher over the year, equating to a return on equity of 7.3 per cent.

While exhibition slowed dramatically, the performance of Village Roadshow's Austereo was stellar – years of planning and investment culminating in its emergence as one of Australia's truly great media companies. It is now our most profitable division.

The production division's earnings rely in part on the overall number of movies completed and released. With a substantial slate of projects in various stages of production its future as a core contributor to the group has been secured. However, a smaller number of movies released in 1999/00 led to a reduction in earnings for the year.

Our theme parks are outstanding assets and delivered a consistent result for the year despite some challenging conditions. Distribution's contribution was lower.

Net profit after abnormals increased 178 per cent or \$48.3 million due to an abnormal loss of \$48.2 million in 1998/99. A net abnormal loss of \$1 million was recorded in 1999/00. Abnormal profits were recorded on the sale of the group's Golden Harvest shareholding and foreign exchange gains. These were offset by write-downs in goodwill, fixed assets and development costs, as well as provisions for legal and employee settlements.

Although bottom line earnings were relatively flat, the strength of the group's earning capacity and growth profile was highlighted by the 12 per cent increase in reported EBITDA to \$184.8 million.

The Board is proposing to pay a dividend of 7.175 cents on the ordinary shares and 10.175 cents on the A class preference shares. This compares to 10 cents and 13 cents paid on the ordinary and A class preference shares respectively in the previous financial year.

The lower dividend has been proposed in response to changes in the Australian tax system, which favour capital appreciation against dividends as the best way of returning value to shareholders. In addition, the 53 per cent pay-out ratio is consistent with the company's previously stated policy of returning around half its earnings to shareholders as dividends. The lower rate is also appropriate given the group's growth focus and an absence of accumulated franking credits.

Cinema Exhibition The fundamental reason behind exhibition's poor performance has been a global softening in cinema audience numbers. For Village cinemas, attendances were, on average, 8 per cent below expectations.

There is no doubt that the Internet and other new media are rival attractions. This has been compounded by product that has lacked widespread appeal.

Shareholders would be keenly aware that this company's successes are 'shirtsleeves' victories and the challenge is to steer this division through the current weather. This is a challenge ferociously accepted by the Board and management in a thorough review and refocus of our exhibition business.

Territories that do not have short-term turnaround prospects have been tagged for sale, costs are being significantly reduced, and our marketing thrust is undergoing a complete overhaul to meet the new competitive paradigm. Importantly we are already well advanced down the restructuring

path having streamlined our London head office, sold our interest in our 26 screen Hong Kong cinema circuit and completely reviewed our development schedule.

That said, in exhibition, product is the key and next year's line-up from the major studios shows promise. Titles including Stephen Spielberg's *AI*, *Harry Potter* and *Pearl Harbour* are set to reignite the passion for cinema and assist in lifting the division to even greater successes than in the past. History gives us this confidence.

Importantly, even in this down cycle, cash flow remains powerful, with exhibition's underlying EBITDA increasing 16.2 per cent to \$87.5 million over the year.

Distribution Distribution's year was mixed. While outstanding results were achieved in video and DVD sales along with television distribution and music, theatrical movie distribution and our educational CD business performed poorly. At Roadshow Music, our top talent Savage Garden has continued to enjoy considerable international success. In addition, new albums released by Savage Garden and Killing Heidi both topped the Australian charts.

Production With an international box office exceeding \$1.8 billion, four Academy Awards and a string of other accolades, our production pedigree has been endorsed by both the movie industry and cinema patrons. The division's successes include *Analyze This*, *Deep Blue Sea*, *Space Cowboys* and of course *The Matrix* which has continued its impressive run with record DVD and video sales.

We enter the new financial year with the best production schedule in our history. We are making films in Australia, the United States and in Canada and the strength of the scripts, the line-up of stars and the quality of the production teams gives us confidence in this division's prospects.

Radio The strength of our radio division bears the fruit of a long and focused strategy to build the best team of managerial, programming, sales and on-air talent in the industry.

We have, without doubt, become the industry benchmark. The division's 36.5 per cent increase in profit before tax in an increasingly competitive environment reflects huge credit on Peter Harvie and Brad March and all the team that have built our radio network into one of Australia's major media enterprises. There is no reason to assume that strong earnings will not continue in the year ahead – and beyond.

The success of our Malaysian venture demonstrates the transportability of our expertise and we continue to investigate similar options. The enormous growth potential that has been created in direct marketing, data management and outdoor advertising are further testaments to the division's ability to leverage its media expertise.

Theme Parks The theme parks' quality entertainment offering was again highlighted with a three per cent increase in visitor numbers over the year. Admission gains were particularly commendable given the tough conditions; not the least of which has been the awful weather experienced on the Gold Coast over the last 18 months.

Exciting new attractions at each of the parks including a new junior Roller Coaster at Warner Bros. Movie World and Australia's first polar bear exhibit at Sea World promise to maintain the upward momentum in visitor numbers.

New Media This division, a joint venture with Network Ten, is spearheading our new media thrust and has tremendous potential. Amid a plethora of online ventures launched in recent times, this organisation has the ingredients for success: an understanding of the market; access to quality content; a proven management team; and the support of strong parents with the resources and marketing power to establish and build one of Australia's premier digital brands, SCAPE.

The new media division is also reviewing all other digital opportunities across the group and we are confident it will not only become a viable operation in its own right but will drive additional growth in offline divisions.

Board and Management To meet the challenges of the new millennium, our Board has been strengthened. Peter Harvie, who is Executive Chairman of our number one division, has joined the parent Board and his acumen and skills are welcomed. Julian Beale, a man with broad experience both in the political and business arenas, joins as an independent Director. At the same time, we extend our thanks for their contribution to Robert Kirby, Peter Ziegler, Terry Jackman and Lord Puttnam who have resigned. We will continue to benefit from Terry Jackman's expertise as he remains Chairman of Sea World Property Trust.

Our executive team, we believe, to be the finest in the business, not only in Australia but internationally. We particularly single out Brad March, Managing Director of our radio network. Brad has surrounded himself with a team of enthusiastic and energetic people who will fuel our growth in new technologies and new business into the next decade.

To our other division Generals, you are the best, and we pay tribute to John Menzies, Ian Sands, Chris Chard, Derek Malone, Bruce Berman and Ian Basser, all of whom have made an outstanding contribution over the year. At Head Office we have brought in an exceptional strata of new executives that include Greg Basser, Tim Antonie and Tim Carroll, who are helping to drive our vision in a new age.

Outlook The past year has again demonstrated the value of the company's focus on its core media and entertainment businesses. However, while focused, we are acutely aware of the need to remain responsive to our evolving environment.

All world commerce today operates in an era of exhaustive change. The 'rules of engagement' are being reinvented, whether it be with the Internet, radio, digital cinema, video on demand or one-on-one marketing via online channels.

In particular, technology is creating new entertainment vehicles while redefining established entertainment media.

Your company is embracing this change to take advantage of all potential options. This is nothing new, the group's continuing strength has been a product of its ability to capitalise on both changing consumer preferences and the emergence of new technologies.

This understanding of the basics of entertainment – backed by a willingness to explore all technologies to deliver it – is the true strength and true future of this company.

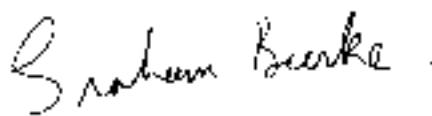
We are media and entertainment specialists with a focused strategy, quality businesses and outstanding management resources. From these powerful foundations and enormous growth opportunities shareholders can look to the future with confidence.

JOHN KIRBY



Chairman

GRAHAM BURKE



Managing Director

Senior Executive Team

CORPORATE

John Kirby**
Chairman

Graham Burke**
Managing Director

Peter Foo**
Finance Director

1 Phil Leggo#
Group Company
Secretary

2 Julie Raffo#
Chief Financial Officer

3 Greg Basser#
Director Commercial
& Legal

4 Tim Antonie#
Director Strategy
& Development

5 Tony Pane#
Chief Tax Counsel

6 Simon Phillipson#
General Counsel

7 Tim Carroll
Director Group
Marketing

8 Joe Locandro
Chief Information
Officer

9 Richard Potter
Director Management
& Reporting

10 Andrew Bowden
Group Manager
Investor Relations

11 Stuart Boxer
Group Manager
Strategic Planning

VILLAGE CINEMAS INTERNATIONAL

12 Chris Gallaher
Finance Director;
Acting Chief Executive
Officer

13 Kirk Senior
Director Business Affairs

ROADSHOW FILM DISTRIBUTORS

14 Ian Sands
Chairman

15 Joel Pearlman
Managing Director

16 Chris Chard
Managing Director,
Roadshow
Entertainment

17 Derek Malone
Managing Director,
Roadshow Television

VILLAGE ROADSHOW PICTURES

18 Bruce Berman
Chairman, Chief
Executive Officer

19 Steve Krone
Chief Operating Officer

20 Bernie Goldman
President, Production

21 Michael Lake
Executive Vice
President, Worldwide
Feature Production

22 Brad March
Group Managing
Director

23 Brian Bickmore
Group General Manager

24 Michael Anderson
Group Director Sales

WARNER VILLAGE THEME PARKS

25 John Menzies
Chief Executive Officer

26 Graham McHugh
Chief Financial Officer

AUSTERE0

Peter Harvie*
Executive Chairman

VILLAGE NEW MEDIA

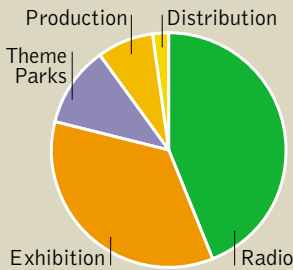
27 Ian Basser
Chief Executive Officer,
New Media

Member Executive Committee

* Photo opposite



The Big Picture

	VILLAGE ROADSHOW GROUP		FILM EXHIBITION	FILM DISTRIBUTION	
OBJECTIVES	<ul style="list-style-type: none"> Achieve superior long-term value for shareholders by building a quality portfolio of complementary media and entertainment assets 		<ul style="list-style-type: none"> Develop a highly profitable international cinema circuit with critical mass in selected territories 	<ul style="list-style-type: none"> Maintain position as a leading movie distributor in Australia, New Zealand, Singapore and Greece 	
KEY STRATEGIES	<ul style="list-style-type: none"> Active management of the group's portfolio of businesses through: <ul style="list-style-type: none"> Realising value in core businesses Divesting or restructuring non-core or underperforming assets Exploiting inherent synergies in the portfolio Create and nurture strong strategic relationships 		<ul style="list-style-type: none"> Refocus international development on the highest quality territories/sites Review revenue/cost dynamics Reassess marketing to leverage all opportunities, especially new technologies 	<ul style="list-style-type: none"> Maximise sales through innovative marketing initiatives Capitalise on increased product output from Village Roadshow Pictures Investigate potential of large and growing film library 	
HIGHLIGHTS	<ul style="list-style-type: none"> Sold Daydream Island, Warner Bros. Studio Stores and shareholding in Golden Harvest Commenced restructuring of exhibition division Strengthened management team New media strategy developed across all divisions 		<ul style="list-style-type: none"> Added 289 screens to the international cinema circuit Restructured head office, Asian cinema operations and sold Hong Kong circuit Village Entertainment Park Greece, the highest grossing cinema complex in the world 	<ul style="list-style-type: none"> Record Video/DVD sales for key titles Video/DVD sales joint venture with Warner Bros. established Savage Garden and Killing Heidi both releasing Australian No. 1 albums 	
KEY DATA	<ul style="list-style-type: none"> Market capitalisation at 30 June 2000, \$976 million Return on equity 7.3% Net Assets \$1.0 billion 		<ul style="list-style-type: none"> Reported EBITDA up 16.8% Screens 1,550 Gross Box Office \$834 million, up 22% 	<ul style="list-style-type: none"> Reported EBITDA down 6% Movie library exceeds 7,000 titles 	
REPORTED EBITDA OF CORE DIVISIONS	 <p>The pie chart illustrates the distribution of EBITDA across five core divisions. Exhibition is the largest contributor at 35%, followed by Radio at 2%. The remaining divisions (Theme Parks, Production, and Distribution) collectively account for the rest of the EBITDA, with their individual percentages not explicitly labeled on the chart.</p>		35%	2%	

	FILM PRODUCTION	RADIO	THEME PARKS	NEW MEDIA
	<ul style="list-style-type: none"> • Become a leading producer of international movies 	<ul style="list-style-type: none"> • Build on the current status as Australia's premier radio operator while developing profitable opportunities in additional core and complementary businesses 	<ul style="list-style-type: none"> • Continue to be recognised as the region's premier theme park operator 	<ul style="list-style-type: none"> • Harness the efficiency and revenue growth opportunities created by new digital technologies
	<ul style="list-style-type: none"> • Selective co-production of commercially successful movies with quality partners, particularly Warner Bros. • Improve production economics by filming in cost efficient locations • Drive the marketing of movies harder to improve returns 	<ul style="list-style-type: none"> • Sustain and grow audience by further enhancing research and creative approach to programming • Profitable expansion into new core and complementary businesses 	<ul style="list-style-type: none"> • Increase attendances through innovative marketing and the development of exciting new attractions • Utilise proven theme park management skills in other locations 	<ul style="list-style-type: none"> • Advance the development of digital technologies across the group • Leveraging off the strengths of Village Roadshow and Network Ten, develop a unique digital leisure and entertainment destination • Create a leading edge entertainment based loyalty program
	<ul style="list-style-type: none"> • Total box office of movies completed exceeded \$1.8 billion • Won 4 Academy Awards • <i>The Matrix</i> became highest grossing DVD ever 	<ul style="list-style-type: none"> • Consistently achieved ratings of above 50 per cent in preferred under 40 demographic • High growth in offshore radio operations • Significant growth in non-radio divisions 	<ul style="list-style-type: none"> • Visitors up 3 per cent over year • Identification, sourcing and development of new attractions • Polar Bear Shores and Road Runner Roller Coaster in construction 	<ul style="list-style-type: none"> • Developed and agreed a comprehensive new media strategy • Established partnership with Network Ten • Launched SCAPE
	<ul style="list-style-type: none"> • Reported EBITDA 21.2% lower • Production partnership to produce up to 40 movies over five years 	<ul style="list-style-type: none"> • Reported EBITDA up 23.1% • 14 radio stations across all Australian mainland capitals 	<ul style="list-style-type: none"> • Reported EBITDA up 18.5% • Almost 3 million visitors per annum 	
	8%	44%	11%	