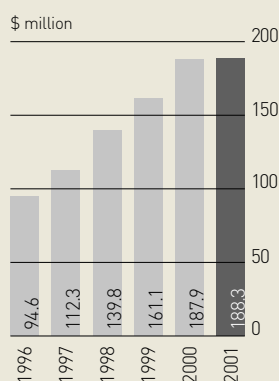


\$'000 (unless shown otherwise)	2001	2000	% Change
Reported EBITDA before significant items and discontinuing operations	188.3	187.9	0.2%
Pre tax profit including significant items	151.6	128.3	18.2%
Pre tax profit excluding significant items	102.1	94.5	8.1%
Less			
Tax expense, excluding tax on significant items	23.1	10.8	115.0%
Outside equity interests	5.4	(2.2)	
Attributable profit after tax, before significant items and discontinuing operations	73.6	85.9	(14.3)%
Net significant items and discontinuing operations	(18.5)	(10.4)	
Net profit	55.1	75.5	(27.1)%
Total parent interest in equity	1,084,110	1,029,254	5.3%
Dividends per share (cents)			
Ordinary shares	7.175	7.175	-
A class preference shares	10.175	10.175	-
Total earnings per share before significant items and discontinuing operations (total shares) (cents)	15.56	18.82	(17.3)%
Return on average equity (%)	7.01%	8.18%	
Net tangible assets per share (\$)	2.20	2.08	5.8%

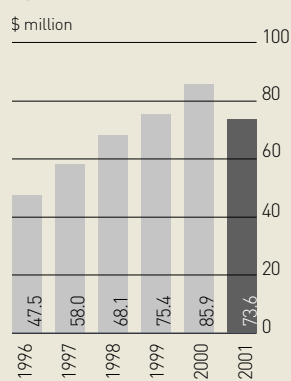
### Earnings

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



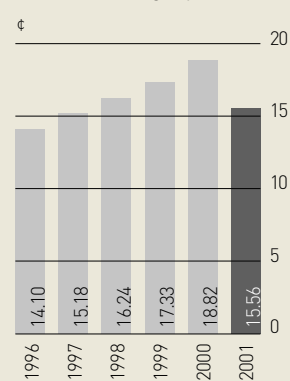
- Cash flow generation remains solid
- EBITDA now exceeds capital expenditure
- Compound average growth over last 5 years 14.8 per cent

### Profit after tax before significant/abnormal items and discontinuing operations



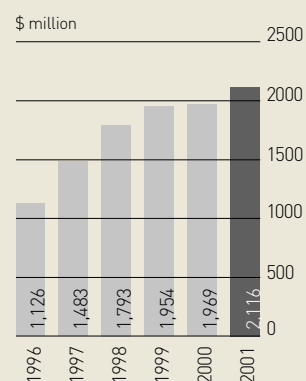
- Strong profit growth from all divisions offset by a loss from exhibition
- Compound average growth over last 5 years 9.2 per cent

### Earnings per share before significant/abnormal items and discontinuing operations



- EPS reduced due to lower profit and higher shares on issue from dividend reinvestment

### Total assets



- High quality, conservatively valued asset base
- Increase due to cash from Austereo float
- 7.5 per cent growth over year

**BUILDING QUALITY ASSETS** ACROSS OUR PORTFOLIO OF CORE ENTERTAINMENT AND MEDIA BUSINESSES GENERATES SOUND RETURNS, A SUSTAINABLE COMPETITIVE ADVANTAGE AND ENDURING VALUE FOR ALL STAKEHOLDERS



## FILM

EXHIBITION,  
DISTRIBUTION &  
PRODUCTION

## RADIO

## THEME PARKS

**Village Roadshow Limited**  
ABN 43 010 672 054

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*John Kirby*  
**JOHN KIRBY**  
CHAIRMAN

*Graham Burke*  
**GRAHAM BURKE**  
MANAGING DIRECTOR

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## CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

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## TO OUR SHAREHOLDERS

After a decade of consistent profitability and growth, our exhibition division recorded its first ever loss, marring the excellent results of our four other core businesses of radio, theme parks, production and distribution.

The primary reason for the exhibition pain is clear. Weak product impacted every exhibitor in every country in the world. The encouraging news is that the product has improved and in our new financial year to date, admissions are up 12 per cent on last year.

Combined with a smaller number of countries where we operate and a reduction in overheads, the division will once again produce solid results. In the medium to long term, we maintain our confidence in the exhibition business. With cinemas, there is one fundamental that has been true from time immemorial – young people will always want to go out. Movies, with an ever changing tapestry of glamour, fashion and spectacle, are one of the only real options to satisfy this basic yearning.

Turning to earnings, group pre tax profits, excluding significant items, for the year were \$102.1 million, an 8.1 per cent increase over the previous year.

With the sale of 42.5 per cent of Austereo, we realised \$315 million cash and a profit of \$191.3 million. At the same time, we wrote off discontinuing operations such as Austria and Malaysia, previously capitalised cinema pre-opening expenses and our share of the Internet joint venture, Scape. Including these significant items and discontinuing operations, the company reported a net profit of \$55.1 million, down 27.1 per cent on last year.

Despite the cinema downturn, in the all important area of cash flow generation, we came in with a reported EBITDA of \$188.3 million, marginally ahead of last year.

Dividends of 7.175 cents per ordinary share and 10.175 cents per preference share have been proposed, unchanged over the prior year. Shareholders will also be pleased to see that the dividends will be franked to just under 40 per cent, with the level of franking expected to rise in the future.

### Radio

The float of Austereo Group Limited, Australia's leading metropolitan network, was a highlight of the year, enabling Village to crystallise the significant value developed from this important investment while ensuring radio remains a core business. Equally, the float has provided Austereo with the strategic flexibility to effectively pursue its own growth options.

Austereo is an outstanding business which, in a tight advertising market, grew revenue 8.4 per cent; a very impressive achievement against sales increases of only 2.9 per cent across the industry over the year.

Underpinning this performance has been Austereo's consistently strong ratings and the 6.5 million listeners who make it the most listened to radio network in Australia.

Once again, Austereo's superior programming and highly inventive promotional campaigns, from a team acknowledged as the best in Australia, helped drive audiences and brand awareness for the two networks and the individual stations.

### Distribution

A solid year, led by excellent results in our television and home entertainment divisions. In particular, your company is the market leader in video distribution, with over 4.5 million units sold this year – children's favourites *The Wiggles* and *Hi 5* exceeded expectations, as did *What Women Want*, *U571* and *Scary Movie*. The DVD business is growing rapidly and we already hold a significant stake, with over 1.4 million units sold in the year.

Countering this product popularity has been the impact of the weak Australian dollar, causing significant increases in acquisition costs.

Distribution's particular strength, the long-term planning and strategic promotion of "event" movies, has proven highly successful over the year, with titles such as *The Dish*, *Miss Congeniality* and *Swordfish* performing particularly well.

These skills are once again to the fore, with the implementation of major marketing campaigns for the company's two big Christmas movies *Harry Potter and the Philosopher's Stone* and the first instalment of the Lord of the Rings trilogy: *Fellowship of the Ring*.

### Production

Our production division enjoyed a solid year, increasing the number of movies produced and successfully released. This reflects the team we have assembled, which is second to none in selecting the right projects and in marketing them internationally. We are not only

building one of the industry's best film libraries, but above all an outstanding asset.

We recorded outstanding results with the Sandra Bullock comedy *Miss Congeniality* and our family hit *Cats & Dogs*. The success of these titles offset softer returns from *Exit Wounds* and *Red Planet*.

Looking ahead, we have a range of exciting titles scheduled for release over the year. Among this quality line-up are two titles which stand-out as extraordinary.

–*Ocean's Eleven* – with a cast headed by George Clooney, Julia Roberts, Brad Pitt, Matt Damon and Andy Garcia, and the directorship of Stephen Soderbergh (*Traffic* and *Erin Brochovich*).

–*The Majestic* – stars Jim Carrey in a touching story of romance and mistaken identity directed by Frank Darabont (*The Green Mile* and *The Shawshank Redemption*).

Production is under way in Sydney, Australia, on *Matrix Reloaded* and *Matrix Three*. Together with our joint venture partners, we have re-assembled the winning cast from the first picture under the inspired direction of Andy and Larry Wachowski. Research tells us that *Matrix Reloaded* is poised to be the most eagerly awaited sequel of any movie, and we believe represents the *Star Wars* of the new millennium.

### Exhibition

During the full year, your company entertained 112 million customers in our worldwide theatres. This was down 13 per cent or 14.5 million admissions, on our budget. Translate this at an average ticket price and concessions of \$9.50, deduct film rental and other direct costs of \$6.50 and multiply by admissions you have a deficit of \$43 million. In a nutshell, this is the effect the worldwide soft product had on our circuit,

resulting in the loss. While we felt confident the product would improve, and this of course has now been the case, your management reacted in two ways:

- reduce the size of our roll-out and capital commitment by targeting ten countries down from our original 20. This reduced roll-out has allowed us to trim our supporting infrastructure and, along with other operational efficiencies, has taken \$7 million out of overheads. We have already sold Germany, Hungary, Switzerland, France and Hong Kong; and
- energise our marketing, with campaigns such as "Summer at the Movies" and "Let's Go". We have also relaunched our local area marketing strategy, and every theatre, every week within the Village universe has three initiatives to get out to the community and sell tickets.

An additional 25 sites are opening this year and a further 9 are scheduled for 2002/03. All sites have been carefully researched as to admission numbers, and as they come on stream will add profitability without increasing corporate overhead. Amongst them is a 16 screen complex in Koahsiung in Taiwan, a 16 screen complex in Milan and a 12 screen complex at Shepherd's Bush in London.

We can say without reservation, Village has the finest fleet of any circuit in the world, with virtually no old stock, and signature theatres that are exciting and fashionable destinations. More and more, our brand attributes are differentiating us from our competitors.

### **Theme parks**

Two newcomers have joined the Sea World family. They are the polar bears Ping Ping and Kanook, who have not only boosted attendances at our parks but provided a lift to Gold Coast tourism.

We are pleased to report that the bears have settled into their new environment very well and are enjoying their world-class facilities.

The success of the bears had a significant impact on Sea World's performance. At the same time, Wet 'n' Wild posted excellent attendance numbers and returns for the year. With its sister parks generating all the interest, attendances at Warner Bros. Movie World were slightly lower than last year.

Together, the parks attracted in excess of three million visitors, with strong growth in local and interstate visitors.

In the current year, Warner Bros. Movie World is developing an exciting Harry Potter attraction, planned for a pre-Christmas opening. This will include a working steam train to be transformed into the amazing Hogwarts Express. The attraction will also feature an authentic re-creation of sets from the movie. We are especially pleased about this attraction, as right now Harry Potter has without question the highest appeal of any intellectual copyright in the world.

Simultaneously, we have shut down the old Gremlins ride, and construction is under way on a new indoor roller coaster themed around the blockbuster movie *Scooby Doo*, which was shot in our Warner Roadshow Studios. Entitled "Scooby Doo's Spooky Castle", it will be the high tech ghost train of the new millennium and arguably the lead attraction in theme parks in this part of the world when it opens in June next year.

Like all tourist-dependent businesses, the theme parks division is not isolated from recent world events and our own domestic airline upheaval. At the time of writing, it is uncertain what medium term impact these events will have on international and domestic tourism, although we are concerned a slow-down in attendances

is possible. However, early signs are that this could be offset by less international travel by Australians combined with Japanese and other Asian tourists choosing Australia as a holiday destination over other locations where personal safety is perceived to be at risk.

Following the offer to acquire the units in Sea World Property Trust with our strategic partner, Warner Bros., we have significantly increased our ownership of the Trust to 42.9 per cent. The higher ownership of this core business will be reflected in future earnings from the division.

Our Warner Roadshow Studios on the Gold Coast have benefited from the super competitive Aussie dollar, and while this has hurt us in our film distribution, it has ensured a full house in our Queensland facilities.

#### **Other businesses**

Last year, we outlined in our annual report plans to develop Scape, an Internet joint venture with Network Ten. Unfortunately, the take up of our on-line service failed to meet expectations and, like many others, we realised the benefits of establishing a new on-line brand would exceed the costs, so we promptly closed the business to limit further losses.

#### **Our Board and team**

Your Board has been strengthened over the year with the addition of Dr Peter Jonson as an Independent Director and Robert Kirby as an Executive Director and Deputy Chairman. Peter Jonson's outstanding business credentials will add further depth to the Board. Originally from the Reserve Bank of Australia, Peter has broad experience in the financial services sector and more recently in several new economy ventures.

He has served as Chairman of two science related advisory committees for the Australian Government – the Major National Research Facilities Committee and the Biotechnology Centre of Excellence Expert Panel. He is Chair of the Melbourne Institute.

Since resigning from the Board in December 1999, Robert Kirby continued as a consultant to the group. In that time, it became increasingly apparent that his energy, experience and total commitment were missed by the Board.

The future of Village Roadshow is our people. In each business, we have unquestionably the best people in their industry and we pay them tribute. It is their energy, loyalty and vast experience that is our future.

Throughout the world, in our major businesses of production, theme parks, exhibition and distribution, we operate in partnership with AOL Time Warner. This is a truly a wonderful relationship, working constructively together to generate tremendous value. At the very foundation of our partnership is the trust we share with Jerry Levin, Barry Meyer and Alan Horn, and we thank them for their support.

#### **Outlook**

As we write this report, we share the world's distress at the shocking and extraordinary events that have occurred. In these difficult times, whether it be with our production, theatres, theme parks or radio, we can contribute in some small way to the spirit and good karma of the people in the areas that we operate. Traditionally, in difficult times people seek entertainment as an escape from their problems.

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As the end of the calendar year approaches, super movie events such as *Harry Potter and the Philosopher's Stone*, *Lord of the Rings: Fellowship of the Ring* and *Ocean's Eleven* will energise our theatres across the world and our film distribution.

In our theme parks, Harry Potter magic will also play a major part, while in film production, the worldwide release of *Ocean's Eleven* and *The Majestic* at Christmas hold great promise. In radio, the business continues to perform well, demonstrating the power of our brands and entertainment offering.

Finally, the company has never been in stronger shape, with debt at its lowest level for several years and cash flow, as we said earlier, the strongest it has ever been. We are building a world-class portfolio of entertainment and media assets, our strategy is clear and we have a management team second to none. All we need now is just our share of a little bit of luck.