# VILLAGE ROADSHOW LIMITED
# ABN 43 010 672 054

# FINANCIAL REPORT
# 30 JUNE 2014

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**DIRECTORS' REPORT**

Your Directors submit their report for the year ended 30 June 2014.

**CORPORATE INFORMATION**
Village Roadshow Limited ("the Company" or "VRL") is a company limited by shares that is incorporated and domiciled in Australia. The registered office and principal administrative office of the Company is located at Level 1, 500 Chapel Street, South Yarra, Victoria 3141.

**DIRECTORS AND SECRETARIES**
The names of the Directors and Secretaries of the Company in office during the financial year and until the date of this report are:

Directors
Robert G. Kirby (Co-Chairman)
Graham W. Burke (Co-Chairman)
John R. Kirby
David J. Evans
Peter D. Jonson
D. Barry Reardon
Peter M. Harvie
Robert Le Tet
Timothy M. Antonie
Julie E. Raffe (alternate for Messrs. R.G. Kirby and G.W. Burke, and to 5 September 2014, for Mr. J.R. Kirby)

Company Secretaries
Shaun L. Driscoll
Julie E. Raffe

The qualifications and experience of the Directors and Secretaries and the special responsibilities of the Directors are set out below.

Directors

**Robert G. Kirby**
*Co-Executive Chairman and Co-Chief Executive Officer, Executive Director, Age 63*

First joined the Board on 12 August 1988, reappointed 5 July 2001. Holds a Bachelor of Commerce with over 30 years experience in the entertainment and media industry. Chairman of Village Roadshow Limited 1994 to 1998, 2002 to 2006 and from June 2010 to 29 November 2013 when he became Co-Executive Chairman and Co-Chief Executive Officer. Deputy Chairman Village Roadshow Limited 1990 to 1994, 1998 to 2002 and 2006 to June 2010. Through the launch of Roadshow Home Video, Mr. Kirby was the driving force behind the Australian video revolution of the 1980's and 1990's. He is a pioneer of new cinema concepts in both Australia and internationally and has been at the forefront of Village Roadshow's successful diversification into theme parks, radio and international film production. Director of Village Roadshow Corporation Pty. Ltd., Deputy Chair of Peter MacCallum Cancer Foundation, Member of Patrons Council of Epilepsy Foundation and Patron of Arts Centre Melbourne.

Member Executive Committee
Chairman Nomination Committee to 30 June 2014

*Other Listed Public Company Directorships in previous 3 years:* Nil

**Graham W. Burke**
*Co-Executive Chairman and Co-Chief Executive Officer, Executive Director, Age 72*

Member of the Board since 9 September 1988. Chief Executive Officer of Village Roadshow Limited from 1988 to 29 November 2013 and Co-Executive Chairman and Co-Chief Executive Officer from 29 November 2013. With unrivalled experience in the entertainment and film industries, Mr. Burke has been one of the strategic and creative forces behind Village Roadshow's development and founded Roadshow Distributors with the late Mr. Roc Kirby. Mr. Burke has been integral to strategically developing Warner Bros. Movie World and Village Roadshow's involvement with Sea World as well as ongoing Australian and international film production. Director Village Roadshow Corporation Pty. Ltd.

Chairman Executive Committee

*Other Listed Public Company Directorships in previous 3 years:* Nil

**John R. Kirby AM**
*Deputy Chairman, Non-Executive Director, Age 67*

Bachelor of Economics, University of Tasmania, Member of the Australian Society of Accountants. Chairman of Village Roadshow Corporation Pty. Ltd., the major shareholder of Village Roadshow Limited. Mr. Kirby has held a wide number of executive positions in cinema, exhibition, film distribution, radio, theme parks, construction and strategy over his 45 years within Village Roadshow, and has been at the forefront of many of the Group's successful growth outcomes today. Currently Deputy Chairman of The Conversation Media Group and Director of the Sony Foundation. Previously Chairman, Village Roadshow Limited. He was a member of The Salvation Army Territorial Advisory Board and former Chairman, Red Shield Appeal. Former Director, Jigsaw Foundation at the Royal Children's Hospital, Surf Life Saving Australia Foundation, and Asia Pacific Screen Awards, a division of the Queensland Arts portfolio. Former Chairman, Austereo Limited. Former Chairman of Sponsors Appeal Committee of the Victorian College of the Arts, and former Deputy Chairman of the Interim Council of the National Film and Sound Archive. Former member of the Victorian Premier's Multi Media Task Force, Victorian Advisory Council of the Australian Opera, and Progressive Business Victoria. The 2011 President of the Australian Cinema Pioneers. Former advisor, Commando Welfare Trust.

*Other Listed Public Company Directorships in previous 3 years: Nil*

**DIRECTORS AND SECRETARIES (continued)**
Directors (continued)

**David J. Evans**
*Independent Non-Executive Director, Age 74*

Member of the Board since 2 January 2007, appointed Lead Independent Director on 1 July 2014. Over 40 years international business experience in media and entertainment industries including CEO of GTV Channel Nine in Melbourne, President, COO at Fox Television and Executive Vice President News Corporation, both in the United States, including Sky Entertainment Services Latin America. Most recently President and CEO of Crown Media Holdings Inc, previously Hallmark Entertainment Networks, since 1999 and served on the board of British Sky Broadcasting Group Plc from September 2001 until November 2011. Director of Village Roadshow Entertainment Group Limited.

Member Nomination Committee
Chairman Corporate Governance Committee

*Other Listed Public Company Directorships in previous 3 years:*
British Sky Broadcasting Group Plc, from 21 September 2001 to 29 November 2011

**Peter D. Jonson**
*Independent Non-Executive Director, Age 68*

Member of the Board since 24 January 2001 and Lead Independent Director from 26 November 2008 to 30 June 2014. Holds a Bachelor of Commerce and Master of Arts degrees from Melbourne University and Ph D from the London School of Economics. Following a 16 year career with the Reserve Bank of Australia including 7 years as Head of Research, entered the private sector with roles at leading Australian financial institutions. Positions included Head of Research, James Capel Australia; Managing Director, Norwich Union Financial Services; and Chairman, ANZ Funds Management. Director Metal Storm Limited from February 2006 to February 2009 and Bionomics Ltd. from November 2004 to November 2009. Founding Chair Australian Institute for Commercialisation Ltd (2002-2007) and Chair of Australian Government's Cooperative Research Centre Committee (2005-2010).

Chairman Remuneration Committee
Chairman Nomination Committee from 1 July 2014
Member Audit & Risk Committee
Member Corporate Governance Committee

*Other Listed Public Company Directorships in previous 3 years:* Nil

**D. Barry Reardon**
*Independent Non-Executive Director, Age 83*

Member of the Board since 24 March 1999. Holds a Bachelor of Arts, Holy Cross College and MBA, Trinity College. Over 40 years in the motion picture business. Formerly Executive Vice President and Assistant to the President, Paramount Pictures. Between 1975 and 1978, Mr. Reardon held the positions of Executive Vice President, General Cinema Theatres and between 1978 and 1999 was President, Warner Bros. Distribution. Serves on the board of various United States companies and organisations and is a Director of Village Roadshow Pictures International Pty. Ltd.

Member Remuneration Committee

*Other Listed Public Company Directorships in previous 3 years:*
Sundance Cinema Corporation Inc., from January 2006 to 15 December 2012

**Peter M. Harvie**
*Independent Non-Executive Director, Age 75*

Member of the Board since 20 June 2000 with over 45 years experience in the advertising, marketing and media industries. On 7 April 2011 Mr. Harvie became a Non-Executive Director of the Company when Austereo ceased to be part of the consolidated entity. First entered radio in 1993 as Managing Director of the Triple M network before becoming Chairman of the enlarged group following its merger with Austereo in 1994. Founder and Managing Director of the Clemenger Harvie advertising agency from 1974 to 1993. Director Clemenger BBDO 1975 to 1992. Chairman CHE Proximity Pty. Ltd., Director Southern Cross Media Group Limited, Director Mazda Foundation Limited, Australian International Cultural Foundation, Art Exhibitions Australia and the Australian National Maritime Museum, and trustee of The Commando Welfare Trust.

*Other Listed Public Company Directorships in previous 3 years:*
Southern Cross Media Group Limited, since 1 August 2011

**Robert Le Tet**
*Independent Non-Executive Director, Age 70*

Member of the Board since 2 April 2007. Holds a Bachelor of Economics Degree from Monash University and is a qualified accountant. Founded and currently Executive Chairman of venture capital company, Questco Pty. Ltd. Over 35 years' experience in broadcasting, film and entertainment industries, including Director of television production company Crawford Productions. Formerly Deputy Chairman of radio station EONFM and 20 years as Chairman and CEO of Australia's largest film and advertising production company, The Filmhouse Group. Previously Chairman of radio stations 3UZ and 3CV, WSA Communications Pty. Ltd. and Entertainment Media Pty. Ltd. and Chairman of Metropolitan Ambulance Service in Melbourne. Served as Board Member of the Australian Broadcasting Authority and Chairman of its Audit Committee.

Chairman Audit & Risk Committee
Member Nomination Committee

*Other Listed Public Company Directorships in previous 3 years:* Nil

**DIRECTORS AND SECRETARIES (continued)**
Directors (continued)

**Timothy M. Antonie**
*Independent Non-Executive Director, Age 48*

Member of the Board since 1 December 2010. Holds a Bachelor of Economics degree (major in accounting) from Monash University and qualified as a Chartered Accountant. Over 20 years experience in investment banking focussing on large scale mergers and acquisitions and capital raisings in the Australian media and entertainment, retail and consumer sectors. Managing Director of UBS Investment Banking from 2004 to 2008. Director Premier Investments Limited and Breville Group Limited.

Member Audit & Risk Committee
Member Remuneration Committee
Member Corporate Governance Committee

*Other Listed Public Company Directorships in previous 3 years:*
Premier Investments Limited, since 1 December 2009
Breville Limited, since 19 December 2013

**Julie E. Raffe**
*Finance Director, Age 52*

Member of the Board since 15 May 2012 as alternate director for Messrs. R.G. Kirby and G.W. Burke and alternate director for Mr. J.R. Kirby from 15 May 2012 to 5 September 2014. Fellow of Institute of Chartered Accountants, Fellow of Financial Services Institute of Australia, and graduate of Australian Institute of Company Directors. Formerly Chief Financial Officer since 1992, Ms. Raffe has over 20 years experience in the media and entertainment industries. Director of Village Roadshow's wholly owned subsidiaries.

Member Executive Committee

*Other Listed Public Company Directorships in previous 3 years:* Nil

Company Secretaries

**Shaun L. Driscoll**
*Group Company Secretary, Age 59*

Holds a Bachelor of Arts and Bachelor of Laws from University of Natal, is a Chartered Secretary and Fellow of the Governance Institute of Australia. Formerly Co-Company Secretary & Group Manager Corporate Services, Mr. Driscoll has diverse industry experience including over 20 years with Village Roadshow. Chairman of the Group's Management, Risk & Compliance Committee, Secretary of all Village Roadshow group companies and Director of Village Roadshow's wholly owned subsidiaries.

**Julie E. Raffe**
*Finance Director, Age 52*

Appointed secretary of the Company on 29 April 2011. Details as above.

Relevant Interests
As at the date of this report, the relevant interests of the Directors in the shares (and "in-substance options" which are included in the totals shown for ordinary shares) and options of the Company and related bodies corporate were as follows:

| Name of Director | Ordinary Shares | Ordinary Options |
|---|---|---|
| Robert G. Kirby | 68,563,136 | - |
| Graham W. Burke | 68,563,136 | 4,500,000 |
| John R. Kirby | 68,563,136 | - |
| David J. Evans | 111,971 | - |
| Peter D. Jonson | 91,103 | - |
| D. Barry Reardon | 28,552 | - |
| Peter M. Harvie | 500,300 | - |
| Robert Le Tet | 108,901 | - |
| Timothy M. Antonie | 22,485 | - |
| Julie E. Raffe (alternate) | 702,360 | - |

Messrs R.G. Kirby, G.W. Burke and J.R. Kirby each have a relevant interest in 100% of the issued capital of:
- Village Roadshow Corporation Pty. Limited, the immediate parent entity of the Company; and
- Positive Investments Pty. Limited, the ultimate parent entity of the Company.

**OPERATING AND FINANCIAL REVIEW**
Principal Activities
The principal activities of the Company and its controlled entities ("the Group", "VRL group" or "consolidated entity") during the financial year were:
- Theme park and water park operations ("Theme Parks");
- Cinema exhibition operations ("Cinema Exhibition"); and
- Film and DVD distribution operations ("Film Distribution").

In addition the VRL group has an equity-accounted 47.12% interest in Village Roadshow Entertainment Group Limited ("VREG") which has film production activities ("Film Production") – refer to Note 11 to the Financial Statements for further details. Other investments, including in digital businesses, as well as corporate overheads and financing activities, are included under 'Other'.

**OPERATING AND FINANCIAL REVIEW (continued)**

Overview of Results and Dividends / Distributions

The VRL group reported an attributable net profit of $45.8 million for the year ended 30 June 2014, compared to the prior corresponding period result of $50.9 million, which included attributable losses after tax from material items of $10.7 million in the year ended 30 June 2014 and $6.3 million in the prior year. Attributable net profit, before material items and discontinued operations ("NPAT") for the year ended 30 June 2014 was $56.5 million, slightly down on the prior year result of $57.2 million. Earnings before interest, tax, depreciation and amortisation, excluding material items and discontinued operations ("EBITDA") for the year ended 30 June 2014 was $170.9 million, up 4.2% on the prior year result of $164.0 million.

Material items of income and expense after tax and non-controlling interest in the year ended 30 June 2014 comprised pre-tax losses from impairment, write-downs and provisions relating to non-current assets and onerous lease of $3.0 million, finance restructuring costs of $2.8 million, legal settlement and expenses of $4.8 million, and loss on disposal of investments/businesses of $1.2 million, total income tax benefit of $1.4 million, and loss from non-controlling interest of $0.2 million.

Basic earnings per share from continuing operations were 28.7 cents per share (2013: 32.7 cents per share). There were 2,231,338 potential ordinary shares that were dilutive in the year ended 30 June 2014 (2013: 2,127,630). Diluted earnings per share before material items and discontinued operations of 34.9 cents per share decreased by 3.6% compared to the prior year result of 36.2 cents per share, based on a weighted average total of 161,721,974 ordinary shares (2013: 157,887,682 ordinary shares).

In October 2013 a fully-franked final dividend of 13.0 cents per ordinary share was paid, in December 2013 a distribution of 25.0 cents per ordinary share was paid (being a capital return of 12.0 cents per ordinary share and a fully-franked distribution of 13.0 cents per ordinary share), and in March 2014, a fully-franked interim dividend of 13.0 cents per ordinary share was paid. In June 2014, a special dividend of 15.0 cents per share was declared, which was subsequently paid in July 2014. In the year ended 30 June 2013, an unfranked final dividend of 10.0 cents per ordinary share was paid in October 2012 and a fully-franked interim dividend of 13.0 cents per ordinary share was paid in March 2013. Subsequent to 30 June 2014, the VRL Board has declared a fully-franked final dividend of 14.0 cents per ordinary share, which will be paid in October 2014.

Net cash flows from operations totalled $96.7 million in the year ended 30 June 2014, compared to $150.7 million in the prior year. Cash flows used in investing and financing activities totalled $113.5 million in the year ended 30 June 2014, compared to $198.2 million used in the prior year. The current year included $152.8 million relating to purchases of property, plant, equipment and intangibles, compared to a total of $145.0 million in the prior year, with a significant part of both amounts relating to the construction of Wet'n'Wild Sydney in the 2014 and 2013 financial years.

Net proceeds from borrowings in the year ended 30 June 2014 were $81.6 million, compared to net repayments of $35.0 million in the prior year. The current year also included a capital return of 12.0 cents per ordinary share totalling $19.1 million, being part of the total distribution of 25.0 cents per ordinary share which was paid in December 2013.

An analysis of the Company's operations, financial position, business objectives and future prospects is set out below. Further financial summary information is set out in the Reconciliation of Results on page 9, which forms part of this Directors' Report, and in Note 29 in the Financial Report.

Operational Results

*Theme Parks*

Village Roadshow Theme Parks ("VRTP") delivered a record full year EBITDA result of $105.6 million (up $14.3 million) in FY2014 excluding one-off costs ($9.0 million) associated with the opening of Wet'n'Wild Sydney and the contribution to the joint "Theme Park Capital" marketing campaign with the Queensland Government. Operating profit before tax, material items and discontinued operations ("PBT") of $33.1 million was up $2.4 million compared to the prior year. This strong result was made possible by the very successful opening of Wet'n'Wild Sydney in December 2013, one of the world's largest and best water parks, and VRTP's strong admissions yield, solid in-park revenue, and tight expense control.

The Gold Coast Theme Parks division of VRTP experienced solid Annual Pass ("VIP") sales throughout the year, which underpinned attendances. The launch of the new "Carnivale" event at Warner Bros. Movie World proved to be very popular and will now be an exciting inclusion to the already successful "Special Events" line-up on an annual basis. The enthusiastic reception of the new "Storm Coaster" ride and the popularity of Sea World's polar bear cub "Henry" played a significant role in the success of Sea World this year. Sea World Resort & Water Park finished the year with revenue up 10.5% on the previous year and operating profit increased by 13.7%, which has been assisted by the ongoing room refurbishment and plant integrity programs. The new 800 seat conference centre is expected to open in the first quarter of FY2016, which will provide the Resort with new business opportunities, and is also expected to have additional flow on benefits to the Gold Coast theme parks.

VRL will continue to execute its strategy of revitalising the Gold Coast theme parks to ensure that the parks and the product offering remain relevant and appealing to consumers. In the near term this will include the opening of a new Warner Bros. Movie World "Junior Driving School" in September 2014, and a brand new water theme area for children, "Wet'n'Wild Jr" will also be added at Wet'n'Wild Gold Coast later this year, which, together with a number of other enhancements, is expected to further underpin strong attendances in FY2015.

On 12 December 2013, Wet'n'Wild Sydney, which features state of the art attractions, including a wide array of spectacular award winning slides, a "Lazy River", and Australia's largest Wave Pool, successfully opened to record crowds nine months ahead of its original schedule. This was an outstanding achievement given the extent of the weather issues faced during the construction period. VRL is extremely pleased with the overall result and the financial performance of the park in its first season of operation, supported by the tremendous market response to the season pass program, with passes sold out in the park's first operating season at impressive yield levels.

The park closed as planned at the end of the Easter 2014 school holiday period and will re-open for its much anticipated second season in September 2014, after rectification in the off season of system and process related issues encountered in the park's inaugural season, which should further enhance the customer experience at this world class water park.

Wet'n'Wild Las Vegas, in Nevada, USA, which is 50.1% owned by VRL, opened in late May 2013, attracting strong attendances and season pass sales. The first season ended in October 2013 and re-opened in mid April 2014, commencing with limited open days, ramping up to seven days from the last week in May. The calendar 2014 season was launched with a new and exhilarating attraction, "Tornado", on Memorial Day weekend. VRL exited its interests in Wet'n'Wild Phoenix and Wet'n'Wild Hawaii in late November 2013.

**OPERATING AND FINANCIAL REVIEW (continued)**
Operational Results (continued)

*Theme Parks (continued)*
VRL has been developing a major strategy for building and managing theme parks in China and South East Asia for the past three years, which is seen as one of the principal vehicles of the VRL group's growth and a vital part of its future. Significant progress has already been made, including as follows:

- progressing with establishing a management team and an Asian head office in Hong Kong;
- ongoing work under VRL's Consulting Service agreement with Hainan R&F Ocean Paradise Development Co. Ltd. for the Hainan Island Park, "Ocean Paradise", which is expected to be fully operational in 2016;
- the recent formation of a strategic alliance and signing of a 'Key Term Sheet' with CITIC Trust Co. Ltd. (subsidiary of CITIC Group), one of China's largest finance conglomerates;
- signing of 'Letters of Intent' ("LOI") with US based SeaWorld Parks and Entertainment to co-develop potential theme park opportunities in China and South East Asia, India and Russia, and with Symmetry Property Development LLC for a project in Wuqing, Tianjin;
- signing of Memorandum of Understanding agreements with the government of the Gyeongsangnam-do Province in South Korea to join Twentieth Century Fox in the design and management of a world class theme park in Korea, and with Guangxi Longxianggu Investment Co., who are working with Mission Hills China, for a planned water park in Guangxi Province, Southern China;
- signing of a Consultancy Services Project Coordination agreement with China Studio Theme Parks Investment Ltd. for a planned "Destination" Theme Park in Guangdong Province, China; and
- working collaboratively with Sunway Group Malaysia to assess the potential market in Johor Bahru for a hybrid Sea World/Ride Park similar in style and content to VRL's Sea World on the Gold Coast.

While the VRL group has multiple other opportunities under review, these will continue to be assessed to ensure only the best are progressed and will lead to medium and long term future profitability.

*Cinema Exhibition*
The Cinema Exhibition division operates predominantly in Australia, Singapore and the United States through joint ventures including with Amalgamated Holdings in Australia and other cinema operators. EBITDA for the year ended 30 June 2014 for the division was $62.6 million, compared to $58.5 million in the prior year, and PBT was $43.8 million, compared to $40.4 million in the prior year.

At 30 June 2014, the division had 532 screens at 52 sites in Australia, 87 screens at 11 sites in Singapore, 73 screens at 10 sites in the United States, and 12 screens at one remaining site in the United Kingdom. Some of the best performing films during FY2014 included; *The Hunger Games: Catching Fire, The Hobbit: The Desolation of Smaug, Frozen, The LEGO Movie, Transformers 4, How to Train Your Dragon 2, Man of Steel, The Wolf of Wall Street, Thor: The Dark World, X-Men: Days of Future Past* and *Gravity.*

In Australia, Cinema Exhibition's successful strategy to focus on incremental revenue initiatives, including loyalty programs, film marketing, retail gifting and extended use of digital ticketing, together with a number of cost saving initiatives, has resulted in the delivery of an impressive 7.6% ($2.8 million) increase in PBT and 6.2% ($3.4 million) increase in EBITDA compared to FY2013.

During the year, the division completed upgrades and refurbishment at a number of key sites, which is aimed at ensuring continued delivery of superior offerings in terms of comfort and state of the art technology to VRL's customers. The expansion of premium offerings in Gold Class and **Vmax** continue to drive improved average overall spend per person. The steady conversion of patrons from VRL's traditional cinemas to the circuit's higher yield premium offerings is having the desired positive impact on the bottom line.

VRL owns 50% of the Golden Village Cinema Exhibition circuit which is the number one circuit in Singapore with a commanding 43% market share. On the back of record results in FY2013, strong performance continued in FY2014, delivering an impressive 10% increase in NPAT and EBITDA. Dividends of $20.9 million were received by the Group during the year, compared to $3.9 million received in the prior year. The inclusion of the much anticipated Suntec City complex, scheduled to open in November 2014, will be an important addition to what is continuing to be a lucrative cinema circuit in Singapore.

The Company's 30%-owned iPic Theaters in the USA continues to progress its expansion plans with the successful opening of iPic Wilshire Boulevard, Los Angeles in May 2014. This takes the total number of sites to 10 and, with plans progressing for a further two sites in Washington and Houston slated for opening in FY2015, together with other key strategic and iconic sites already identified for potential development, VRL is confident that as a critical mass of locations is reached, this circuit will be a great asset and addition to VRL's cinema portfolio. The Company's single UK site in Belfast continued to be loss making in FY2014, and VRL continues to actively seek an exit strategy for this site.

In line with the Group's growth strategy, Cinema Exhibition is targeting significant population growth corridors for new developments. At present there are a number of opportunities at various stages of negotiation. VRL is confident that the expansion of sites into the right locations will continue to build and grow VRL's prominent market position and revenues well into the future. Supported by one of the best film slates seen for many years, VRL is confident of delivering continued year on year growth in FY2015.

*Film Distribution*
Despite a strong second half compared to the corresponding period in FY2013, the Film Distribution division finished FY2014 with an EBITDA of $41.7 million, down 9.8%, and PBT of $34.8 million, down 8.3%, as compared to the previous year's results of $46.2 million and $38.0 million respectively. The FY2014 result was largely the outcome of a challenging slate for Theatrical and underperforming commercial content (Film and TV), particularly *Transcendence* which resulted in an approximate $2 million minimum guarantee write off, however the division is focused on the identification of further opportunities across the release windows, whilst progressing initiatives to reduce overhead costs.

Roadshow Films finished the financial year as the lead distributor in the market commanding a 28.4% market share, up 2.9% on last year. This was aided by the delivery of some outstanding performances in the second half as the stronger films began to flow through the schedule. Best performers in FY2014 included *The Hunger Games: Catching Fire, The Wolf of Wall Street, The LEGO Movie, The Hobbit: The Desolation of Smaug, American Hustle* and *Gravity.* Warner Bros. continues to be a key supplier for the Theatrical division, providing some major film titles during FY2014. Roadshow also renewed the Lionsgate output agreement for an additional three year term from January 2015.

**<u>OPERATING AND FINANCIAL REVIEW (continued)</u>**
<u>Operational Results (continued)</u>

*<u>Film Distribution (continued)</u>*
The Australian Film industry continues to provide ongoing film distribution opportunities with two releases during the year; *Wolf Creek 2* and *The Rover*. There are currently a number of films forecast for release in FY2015, including *Paper Planes* and *Felony*, and the upcoming slate is looking increasingly optimistic with a number of scheduled releases. Roadshow Films also continues to be active within the independent film market - upcoming key titles include *The Imitation Game* (Film Nation), *Point Break* (Lionsgate) and *The Story of Your Life* (Film Nation).

Roadshow Entertainment experienced a challenging year impacted by many changes in the market for packaged media. Despite these challenges, Roadshow remained the number one independent retail distributor of DVD's in Australia, holding a market share of 14.5%. The first half results were adversely impacted by the reduction of theatrical product available, however the division benefited from the stronger theatrical content released in the second half. Retail sales of TV on DVD delivered solid results throughout the year, primarily driven by strong library sales and the content from Roadshow's output deals with the BBC, ABC, ITV and Shine.

The Australian digital market showed strong growth of approximately 22% at the retail level and 25% at the trade level over the year, and Roadshow now holds a 16% share of this market. Subscription Video on Demand ("SVOD") is expected to grow in 2015 with the anticipated launch of several SVOD services in both Australia and NZ, including the potential entrance of Netflix. VRL is well positioned with three of Roadshow's four TV output contracts in a non-exclusive position to SVOD rights.

Roadshow Television holds strong output deals across each of the four major television segments in Australia and New Zealand. During the year, the Channel 9 Free to Air output contract in Australia was renewed for a further 4 years, solidifying the future revenue streams from this sector. In the financial year, Roadshow Television delivered strong revenue and profit results off the back of better than average film performance, as well as several additional sales packages placed across the independent television market.

*<u>Film Production</u>*
Village Roadshow Entertainment Group ("VREG") is 47.12% owned by the VRL group, and as detailed in Note 11(b) to the Financial Statements, the VRL group has no carrying value for the equity-accounted investment in VREG. In addition, there were no amounts included in the VRL group results as no cash dividends were received from VREG in the year ended 30 June 2014 (2013: $3.8 million profit included in the VRL group results in relation to cash dividends received).

VREG consists of Village Roadshow Pictures ("VRP") and Village Roadshow Pictures Asia ("VRP Asia"). VRP released three films in the second half of FY2014: *The LEGO Movie*, which grossed USD 468 million worldwide, *Winter's Tale*, which grossed USD 31 million worldwide and *Edge of Tomorrow*, which has grossed USD 364 million worldwide to date.

VRP's goal of 6-8 film releases per year is on track with an increased number of titles slated for FY2015. Upcoming releases being co-produced with Warner Bros. include *The Judge*, *American Sniper*, *Jupiter Ascending*, *In the Heart of the Sea*, *Mad Max: Fury Road*, and *San Andreas*. VRP is also in advanced discussions to enter a co-production agreement with Sony Pictures.

VRP Asia released one film during the year, *Man of Tai Chi*, in July 2013. VRP Asia continues to build its Chinese film business with upcoming releases *Zhong Kui: Snow Girl and The Dark Crystal*, *IPO* and *Mountain Cry*. The continued growth of the Chinese film business will create a valuable portfolio of films to solidify VRP Asia's presence in film production in this region.

*<u>Other</u>*
The total net Corporate & Other costs for the year ended 30 June 2014 were $32.3 million compared to $27.1 million for the prior year, which included net costs of $28.2 million (2013: $33.0 million) for Corporate, $2.0 million (2013: $0.2 million) for Asia Development, $1.3 million (2013: $0.5 million) for Digital Development, a profit of $1.5 million (2013: $1.5 million) for Digital Operations, and depreciation of $2.0 million (2013: $1.3 million). Net interest expense in FY2014 was $0.3 million, compared to net interest income in the prior year of $4.2 million. No dividends were received from VREG in FY2014 (2013: $3.8 million). EBITDA cost for the year to 30 June 2014 was $30.0 million, in line with the prior year.

Net interest revenue was lower in the current year compared with the prior year due to lower cash reserves and draw down on debt facilities, as a result of the payment of the shareholder distributions and capital funding of the Wet'n'Wild Sydney development. During the year VRL also endorsed a program of Digital Development work across the divisions, focussing on enhancing on-line data collection, analytics and overall engagement with customers via digital means.

Asia Development net costs are associated with the South East Asia and China Theme Parks expansion strategy and projects outlined earlier. It is expected that these costs will be higher in FY2015 as the Hong Kong office is established. As noted above, no dividends were received from VREG in FY2014 - these dividends depend on film performance and available free cash flow in VREG.

The recently formed Digital division consisting of Edge Loyalty and MyFun continues to exceed expectations, showing strong organic growth through the expansion of the business into new channels and markets. During the year Digital completed the acquisition of Lifestyle Rewards, which has helped expand Digital's reward and loyalty offering. The division has exciting plans to enter the Asian market in calendar year 2015 via a roll-out of products similar to Australia. VRL is confident that the Digital division will continue to develop and contribute materially to earnings in the medium term.

<u>Financial Position</u>
During the year ended 30 June 2014, total assets of the consolidated entity decreased by $31.6 million, including decreases in cash of $16.5 million, film distribution royalties of $17.9 million and equity-accounted investments of $13.0 million, which were partly offset by a net increase in property, plant & equipment of $18.0 million, which included an increase relating to the remaining Wet'n'Wild Sydney build cost, and decreases from the disposals relating to US Water Parks and depreciation/amortisation. Total liabilities increased by $19.2 million, including increases in borrowings of $62.4 million, provisions of $23.9 million (being the special dividend of 15 cents per share declared in June 2014), which was partly offset by a reduction in trade and other payables of $50.0 million.

**OPERATING AND FINANCIAL REVIEW (continued)**

Financial Position (continued)

Total equity of the consolidated entity decreased by $50.8 million to $521.3 million during the year. This was mainly attributable to decreases in contributed equity of $15.2 million (mainly resulting from the capital reduction of 12 cents per share in December 2013) and retained earnings of $40.4 million, partly offset by an increase in the non-controlling interest of $3.9 million. Net profit attributable to members of the parent was $45.8 million, but after accounting for dividends and distributions paid or payable during the year of $86.1 million, retained earnings of the consolidated entity decreased by $40.4 million.

The VRL group's net debt as at 30 June 2014 was $350.5 million, giving a gearing ratio of 40%, compared to the prior year's gearing ratio of 32%. Of the total debt of $480.9 million, $23.1 million is classified as current liabilities, and $457.8 million is classified as non-current liabilities. The VRL group is in compliance with all required debt covenants as at 30 June 2014.

During the year ended 30 June 2014, the VRL group restructured its US Water Park investments, which included the disposal of the Wet'n'Wild Phoenix and Wet'n'Wild Hawaii businesses, and resulted in a loss on disposal of investments / businesses of $1.2 million, which is included in material items of income and expense in the Reconciliation of Results on page 9 of this report. Other than as disclosed above, there have been no significant changes in the state of affairs of the consolidated entity during the financial year.

Events Subsequent to Balance Date

There have been no material transactions which significantly affect the financial or operational position of the consolidated entity since the end of the financial year.

Environmental Regulation and Performance

The VRL group was subject to the *National Greenhouse and Energy Reporting Act* for the year ended 30 June 2014, however this has not had any material impact on the VRL group.

Business Objectives and Future Prospects

*Strategy/Objectives*

The strategy and objectives of the VRL group are summarised as follows:

- Ongoing improvement in operating performance of each division;
- Continued development of innovative and competitive products and services such as higher yielding cinema offerings and site refurbishments in the Cinema Exhibition division, new attractions at existing locations and development of new locations for the Theme Parks division;
- Ongoing expansion in relation to the Group's involvement in theme parks in China and South east Asia;
- Ongoing review of potential further investments across the VRL group's various divisions, subject to acceptable financial returns;
- Increase in output of films per year by VREG, improving the financial performance of the Film Production division;
- Continuing to monitor opportunities in the digital and online space; and
- Continuing to closely monitor and review corporate overheads, including remuneration costs, in light of ongoing efficiency reviews.

*Business Risks*

Material business risks that could have an effect on the financial prospects of the VRL group, and the way in which the VRL group seeks to address some of these risks, are as follows:

- Consumer spending – a shift in the patterns with which consumers spend their disposable income could impact the Group in all of its businesses, however historical experience has shown that the Group's entertainment offerings are generally impacted less by economic downturns compared to other discretionary expenditures of consumers;
- Competition – all of the Group's businesses are continuously vying for customers against a wide variety of competitive forces;
- Technology – the media through which people receive entertainment content is ever-changing, with increased digitalisation and portability being key focuses for many consumers, although the uniqueness of the Group's 'out-of-home' entertainment experiences appear to have reduced the extent and impact of this issue;
- Piracy – the ongoing issue of film and music piracy poses a challenge to the Group's Cinema Exhibition, Film Distribution and Film Production businesses, and the VRL group is actively working with other industry participants to reduce the severity of this risk;
- Lack of quality films – the Cinema Exhibition and Film Distribution businesses are dependent on a solid and reliable flow of quality, high grossing film content. This risk has been partly mitigated in Film Distribution by long term supply contracts with major suppliers, including Warner Bros., and in Cinema Exhibition by new offerings (e.g. Gold Class) and alternative content and uses;
- Film production volatility – film production is an inherently volatile business. This risk is partly mitigated by VREG adopting a portfolio approach, however the Film Distribution division may also be impacted;
- Weather – extreme weather events can challenge admission levels at the Theme Parks division's businesses, with potential customers not travelling to such destinations when the weather is severe, such as floods or cyclones. The VIP season pass ticket promotion seeks to partially address this risk by allowing tickets to be utilised when better weather returns;
- International tourism – tourism can be affected by multiple factors including foreign currency exchange rates, severe weather, disease outbreaks and terrorism threats, however none of the VRL group's businesses, including in the Theme Parks division, are heavily reliant on international visitation (although they are still affected to some extent);
- Safety – the Theme Parks and Cinema Exhibition businesses operate public venues and (in the case of Theme Parks) rides and other attractions, with the consequence that there is risk of physical injury or harm. The VRL group takes its commitment to the safety of both its staff and its patrons at all of the Group's venues very seriously, primarily in order to ensure that a safe environment is always provided for patrons and staff, and as a secondary issue, to minimise any adverse legal or reputational consequences of any serious incidents; and
- Development – the building of either new cinema sites or theme parks, both in Australia and overseas, involves inherent risks to such development projects, including cost and time overruns, community distaste for a project, regulatory hurdles and various governmental requirements and permissions. However, due to the diversity and scale of the VRL group's other businesses, any adverse impact on the Group from any individual development or new operation, whether in Australia or elsewhere, is not expected to be material, and the significant expertise and experience of the Group in delivering such projects minimises this risk.

*Future Prospects*

Subject to the business risks outlined above, and general economic risks and uncertainties, it is anticipated that the VRL group will continue to produce solid operating profits in future years. The Group has maintained a conservative net debt position and has enjoyed reliable cash-flows from its existing businesses. If this continues, the Group may be able to take advantage of potential future profitable development opportunities when they arise, which may include opportunities in Australia and elsewhere, with a focus on Asia. Specific future prospects for each division have been included in the Operational Results section above.

**OPERATING AND FINANCIAL REVIEW (continued)**
Business Objectives and Future Prospects (continued)

*Future Prospects (continued)*
The Group's brands are well recognised and respected, and all of the Group's businesses are focussed on ensuring that their customers have an enjoyable entertainment experience to encourage repeat visitation. The Company is committed to maintaining a consistent, stable dividend return to shareholders whilst retaining the flexibility for future expansion options.

## SHARE OPTIONS

Details of unissued shares under option, and shares issued as a result of the exercise of options, are set out in Note 19 to the Financial Statements. Details of share, option and "in-substance option" transactions in relation to Directors and Key Management Personnel of the consolidated entity are set out in the Remuneration Report.

## INDEMNIFYING AND INSURANCE OF OFFICERS AND AUDITORS

Since the commencement of the financial year, the Company has not, in respect of any person who is or has been an officer or auditor of the Company or related body corporate, indemnified or made any relevant agreement for indemnifying against a liability (including costs and expenses incurred in successfully defending legal proceedings) incurred as an officer or auditor, nor has the Company paid or agreed to pay a premium for insurance against any such liabilities incurred as an officer or auditor other than an un-allocated group insurance premium which has been paid to insure each of the Directors and Secretaries of the Company against any liabilities for costs and expenses incurred in defending any legal proceedings arising out of their conduct as officers of the Company or related body corporate, other than conduct involving wilful breach of duty.

## REMUNERATION REPORT

The Remuneration Report, which forms part of this Directors' Report, is set out on pages 11 to 25.

## DIRECTORS' MEETINGS

The following table sets out the attendance of Directors at formal Directors' meetings and committee of Directors' meetings held during the period that the Director held office and was eligible to attend:

| Name of Director | Number of Meetings Held While in Office | | | | | Number of Meetings Attended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Formal | Audit & Risk | Remuneration | Corporate Governance | Nomination | Formal | Audit & Risk | Remuneration | Corporate Governance | Nomination |
| Robert G. Kirby | 8 | - | - | - | 1 | 7 | - | - | - | 1 |
| John R. Kirby | 8 | - | - | - | - | 8 | - | - | - | - |
| Graham W. Burke | 8 | - | - | - | - | 7 | - | - | - | - |
| David J. Evans | 8 | - | - | 4 | 1 | 8 | - | - | 4 | 1 |
| Peter D. Jonson | 8 | 3 | 3 | 4 | - | 8 | 2 | 3 | 4 | - |
| D. Barry Reardon | 8 | - | 3 | - | - | 8 | - | 3 | - | - |
| Peter M. Harvie | 8 | - | - | - | - | 8 | - | - | - | - |
| Robert Le Tet | 8 | 3 | - | - | 1 | 7 | 3 | - | - | 1 |
| Timothy M. Antonie | 8 | 3 | 3 | 4 | - | 7 | 3 | 3 | 4 | - |
| Julie E. Raffe (alternate) | 2 | - | - | - | - | 2 | - | - | - | - |

Informal procedural meetings attended by a minimum quorum of three Directors to facilitate document execution and incidental matters are not included in determining the number of Directors' meetings held.

## TAX CONSOLIDATION

A description of the VRL group's position in relation to Australian Tax Consolidation legislation is set out in Note 4 to the Financial Statements.

## AUDITOR INDEPENDENCE

The Auditor's Independence Declaration to the Directors of the Company, which forms part of this Directors' Report, is set out on page 10.

## NON-AUDIT SERVICES PROVIDED BY AUDITOR

Details of the non-audit services provided by the auditor are set out in Note 26 to the Financial Statements. The non-audit services summarised in Note 26 were provided by the VRL group's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

## ROUNDING

The amounts contained in this report and in the financial statements have been rounded (where applicable) to the nearest thousand dollars (unless stated otherwise) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors at Melbourne this 19th day of September 2014.

G.W. Burke
Director

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**RECONCILIATION OF RESULTS FOR THE YEAR ENDED 30 JUNE 2014**

| | Theme Parks 2014 $'000 | Theme Parks 2013 $'000 | Cinema Exhibition 2014 $'000 | Cinema Exhibition 2013 $'000 | Film Distribution 2014 $'000 | Film Distribution 2013 $'000 | Other 2014 $'000 | Other 2013 $'000 | Total 2014 $'000 | Total 2013 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **(i) Reconciliation of results:** | | | | | | | | | | |
| **Continuing Operations:** | | | | | | | | | | |
| **Earnings before Interest, Tax, Depreciation and Amortisation, excluding material items of income and expense ("EBITDA")** | **96,635** | **89,345** | **62,568** | **58,504** | **41,665** | **46,203** | **(30,007)** | **(30,059)** | **170,861** | **163,993** |
| Depreciation and amortisation | (45,249) | (36,185) | (14,862) | (13,585) | (3,211) | (3,196) | (2,027) | (1,298) | (65,349) | (54,264) |
| Finance costs before fair value change on derivatives and finance restructuring costs | (18,466) | (22,763) | (4,407) | (4,993) | (4,678) | (6,092) | (2,709) | (1,337) | (30,260) | (35,185) |
| Interest income | 176 | 297 | 474 | 502 | 1,065 | 1,068 | 2,481 | 5,596 | 4,196 | 7,463 |
| **Operating profit (loss) before tax and material items of income and expense ("PBT")** | **33,096** | **30,694** | **43,773** | **40,428** | **34,841** | **37,983** | **(32,262)** | **(27,098)** | **79,448** | **82,007** |
| Income tax (expense) benefit, excluding material items | (9,901) | (9,788) | (11,727) | (10,558) | (10,774) | (12,521) | 10,029 | 8,200 | (22,373) | (24,667) |
| **Operating profit (loss) after tax, before material items of income and expense** | **23,195** | **20,906** | **32,046** | **29,870** | **24,067** | **25,462** | **(22,233)** | **(18,898)** | **57,075** | **57,340** |
| Non-controlling interest | (619) | (153) | - | - | - | - | - | - | (619) | (153) |
| **Attributable operating profit after tax, before material items of income and expense** | **22,576** | **20,753** | **32,046** | **29,870** | **24,067** | **25,462** | **(22,233)** | **(18,898)** | **56,456** | **57,187** |
| Material items of income and expense before tax | (3,848) | (6,920) | (1,009) | (1,374) | (316) | 7,586 | (6,674) | (4,196) | (11,847) | (4,904) |
| Income tax (expense) benefit – material items | 554 | 2,076 | 165 | (38) | 95 | (3,390) | 570 | - | 1,384 | (1,352) |
| Material items of income and expense after tax | (3,294) | (4,844) | (844) | (1,412) | (221) | 4,196 | (6,104) | (4,196) | (10,463) | (6,256) |
| Material items – non-controlling interest | (224) | - | - | - | - | - | - | - | (224) | - |
| Material items – profit (loss) after tax & non-controlling interest | (3,518) | (4,844) | (844) | (1,412) | (221) | 4,196 | (6,104) | (4,196) | (10,687) | (6,256) |
| Total profit (loss) before tax from continuing operations | 29,248 | 23,774 | 42,764 | 39,054 | 34,525 | 45,569 | (38,936) | (31,294) | 67,601 | 77,103 |
| Total income tax (expense) benefit from continuing operations | (9,347) | (7,712) | (11,562) | (10,596) | (10,679) | (15,911) | 10,599 | 8,200 | (20,989) | (26,019) |
| Total non-controlling interest | (843) | (153) | - | - | - | - | - | - | (843) | (153) |
| **Total attributable profit after tax from continuing operations per the statement of comprehensive income** | **19,058** | **15,909** | **31,202** | **28,458** | **23,846** | **29,658** | **(28,337)** | **(23,094)** | **45,769** | **50,931** |
| **Discontinued Operations:** | | | | | | | | | | |
| Attributable profit after tax from discontinued operations | | | | | | | | | - | - |
| **Net profit attributable to the members of Village Roadshow Limited** | | | | | | | | | **45,769** | **50,931** |
| **(ii) Material items of income and expense from continuing operations:** | | | | | | | | | | |
| Unrealised mark to market profits (losses) on interest rate and foreign currency derivatives | | | | | | | | | (26) | 2,637 |
| Impairment, write-downs and provisions relating to non-current assets and onerous lease | | | | | | | | | (3,003) | (14,383) |
| Finance restructuring costs | | | | | | | | | (2,840) | - |
| Legal settlement and expenses | | | | | | | | | (4,774) | - |
| Profit (loss) on disposal of investments / businesses | | | | | | | | | (1,204) | 6,842 |
| Total loss from material items of income and expense before tax | | | | | | | | | (11,847) | (4,904) |
| Income tax (expense) benefit | | | | | | | | | 1,384 | (1,352) |
| Total non-controlling interest – material items | | | | | | | | | (224) | - |
| **Total attributable loss from material items of income and expense after tax** | | | | | | | | | (10,687) | (6,256) |
| **(iii) Earnings Per Share adjusted to eliminate discontinued operations and material items of income and expense from the calculations:** | | | | | | | | | | |
| Basic EPS | | | | | | | | | 35.4c | 36.7c |
| Diluted EPS | | | | | | | | | 34.9c | 36.2c |

Note: The VRL group results are prepared under Australian Accounting Standards, and also comply with International Financial Reporting Standards ("IFRS"). The Reconciliation of Results includes certain non-IFRS measures including EBITDA and operating profit excluding material items of income and expense and discontinued operations. These measures are used internally by management to assess the performance of the business, make decisions on the allocation of resources and assess operational management. Non-IFRS measures have not been subject to audit or review, however all items used to calculate these non-IFRS measures have been derived from information used in the preparation of the audited or audit-reviewed (as applicable) financial statements.

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Building a better working world

# Auditor's Independence Declaration to the Directors of Village Roadshow Limited

In relation to our audit of the financial report of Village Roadshow Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Shewring
Partner
19 September 2014

The Directors of the Company present the Remuneration Report (the "Report") which details the compensation arrangements in place for Directors and senior managers of the Company being the Key Management Personnel ("KMP") of the VRL group for the year ended 30 June 2014 in accordance with Section 300A of the *Corporations Act 2001* ("the Act") as amended.

The information provided in this Report has been audited as required by Section 308(3C) of the Act. The Report forms part of the Directors' Report.

## A. EXECUTIVE SUMMARY

### 1. Categories of Directors and Senior Management

The Directors and KMP to whose compensation arrangements this Report refers have been segregated into the following categories:

<table>
<tr><th colspan="4">CATEGORIES AND GROUPINGS OF DIRECTORS AND EXECUTIVES REFERRED TO IN REMUNERATION REPORT</th></tr>
<tr><td>Mr. Robert Kirby and Mr. Graham Burke</td><td>Executive Director KMP</td><td rowspan="2">Executive KMP<br>= <u>All</u> members of Village Roadshow Limited's Executive Committee</td><td rowspan="3">"Key Management Personnel" of the Village Roadshow Limited Group</td></tr>
<tr><td>All other non-Director members of Village Roadshow Limited's Executive Committee</td><td>Executive Committee KMP</td></tr>
<tr><td colspan="2">All Non-Executive Directors of Village Roadshow Limited</td><td>Non-Executive Director KMP</td></tr>
</table>

**(a) Key Management Personnel ("KMP")**

Those persons who are defined as Key Management Personnel of the VRL group are those persons with authority and responsibility for planning, directing and controlling the activities of the VRL group, and are referred to in this report as ***"KMP"***.

**(b) Executive KMP**

All Executive KMP are the members of the Village Roadshow Limited Executive Committee. For Village Roadshow Limited, these Executive KMP are further split into 2 categories:

***(i) Executive Director KMP***

The Company's Executive Directors are referred to in this Report as "***Executive Director KMP***" being Messrs. Robert G. Kirby and Graham W. Burke.

***(ii) Executive Committee KMP***

The non-Director senior executives who are members of the Village Roadshow Limited Executive Committee are referred to in this Report as the ***"Executive Committee KMP".***

The names, positions, dates of appointment, and dates of cessation (if ceasing up to 30 June 2014), of these Executive KMP for the 2013 and 2014 financial periods are as follows:

| NAME | TITLE/POSITION | APPOINTMENT | CESSATION | CATEGORY |
|---|---|---|---|---|
| Robert G. Kirby | Co-Executive Chairman and Co-CEO + ^ | 29 November 2013 | - | Executive Director KMP |
| Graham W. Burke | Co-Executive Chairman and Co-CEO + # | 29 November 2013 | - | Executive Director KMP |
| Clark J. Kirby | Chief Operating Officer * | 15 May 2012 | - | Executive Committee KMP |
| Julie E. Raffe | Finance Director ** | 15 May 2012 | - | Executive Committee KMP |
| Simon T. Phillipson | General Counsel ^^ | 13 May 1996 | - | Executive Committee KMP |
| David Kindlen | Chief Information Officer | 1 December 2006 | - | Executive Committee KMP |

\+ Became Co-Executive Chairman and Co-Chief Executive Officer on 29 November 2013
^ Executive Chairman since 3 June 2010 and Executive Director since July 2001
# Chief Executive Officer and Executive Director since September 1988
* Previously Director Business Development and Strategy and KMP since 1 December 2010
** Previously Chief Financial Officer and KMP since 28 September 1992
^^ Also appointed Director of Corporate Affairs on 20 August 2014

**(c) Non-Executive Director KMP**

Other than the Executive KMP referred to above, the Group's other KMP are referred to as ***"Non-Executive Director KMP"***. The names, dates of appointment, and dates of cessation of these Non-Executive Director KMP during the 2013 and 2014 financial periods are as follows:

| NAME | TITLE/POSITION | APPOINTMENT | CESSATION | CATEGORY |
|---|---|---|---|---|
| David J. Evans | Independent Director | 2 January 2007 | - | Non-Executive Director KMP |
| Peter D. Jonson | Independent Director | 24 January 2001 | - | Non-Executive Director KMP |
| D. Barry Reardon | Independent Director | 24 March 1999 | - | Non-Executive Director KMP |
| Robert Le Tet | Independent Director | 2 April 2007 | - | Non-Executive Director KMP |
| Timothy M. Antonie | Independent Director | 1 December 2010 | - | Non-Executive Director KMP |
| Peter M. Harvie | Independent Director | 7 April 2011 * | - | Non-Executive Director KMP |
| John R. Kirby | Non-Executive Director | 1 July 2012 | - | Non-Executive Director KMP |

* Became Independent Non-executive Director on 7 April 2013

## A. EXECUTIVE SUMMARY (continued)
## 2. Remuneration Outline

The Company's movie-related businesses are in an industry that is highly intensive, complex and competitive. Industry specific challenges including technology, financing and marketing have changed dramatically over the past few years, requiring constant attention with new release patterns and windows for movies having a dramatic effect on the overall financial performance and profit/loss on any given picture. The Company's theme park operations are highly competitive for international executive talent, with specific industry challenges in relation to domestic theme park development and optimisation, and international theme park assessment, negotiation, development and operations. These factors put significant pressure on the executives in the Group to maintain optimum performance. Due to the Group's overseas business interests and the global nature of the entertainment industry, the Company's Remuneration Committee considers both international entertainment industry remuneration levels and local remuneration expectations and practices. Executive remuneration and bonuses for these senior executives are based upon performance criteria and other financial objectives which reflect the nature and seniority of their role and unique challenges of the industries in which the Group's businesses operate.

Following a corporate cost structure review in early 2011, VRL's Executive Director KMP remuneration was structured so that VRL's CEO, Mr. Graham Burke, received a salary of $2.25 million per annum CPI indexed each October and an entitlement to a performance bonus capped at a maximum of $1.0 million per annum, and VRL's Executive Chairman, Mr. Robert Kirby, received a salary of $2.25 million per annum CPI indexed each October, with no performance bonus. Each Executive Director was also entitled to $50,000 per annum in superannuation or cash equivalent and a $100,000 per annum car allowance.

On 29 November 2013 Mr. Burke and Mr. Kirby both became Co-Executive Chairman and Co-Chief Executive Officer of VRL with no change to their remuneration arrangements other than Mr. Burke's $1.0 million annual performance bonus, referred to above, being shared equally between Mr. Burke and Mr. Kirby. This change in titles was in recognition that both Mr. Kirby and Mr. Burke work closely together as a highly effective team beyond the traditional roles and boundaries of individual Chairman and CEO. The change also reflects that Mr. Kirby and Mr. Burke effectively share both positional functions between them. The flexibility that the joint titles brings to Mr. Kirby and Mr. Burke also facilitates enhanced senior executive input into the day-to-day operations of the Company with both men primarily concentrating their various efforts in different parts of the Company's businesses.

For the year ended 30 June 2014, each Executive Director KMP received $2.374 million in base cash salary plus $100,000 car allowance and $25,000 was paid into their nominated superannuation fund. In addition Mr. Burke's and Mr. Kirby's short term incentive ("STI") bonus was $499,000 each (2013: $982,500 for Mr. Burke only), with 50% of the bonus based on the Company's cash flow return on investment ("CFROI") exceeding certain hurdles, and 50% based on the increase in earnings per share ("EPS") growth exceeding the growth of the top 300 stocks listed on ASX. Both the CFROI and EPS components of the STI bonus have been accrued for in 2014 and for the prior year. In relation to the year ended 30 June 2014, for Mr. Burke's and Mr. Kirby's STI the CFROI component amounted to $249,000 each (2013: $500,000 for Mr. Burke only) and the EPS component amounted to $250,000 each (2013: $482,500 for Mr. Burke only).

Executive Committee KMP can also earn STI bonuses which are based on a mix of the same CFROI and EPS metrics as Executive Director KMP together with specific individual Key Performance Indicators ("KPIs") for each Executive Committee KMP. Remaining discretionary components of Executive Committee KMP STI bonus payments, such as against personal performance targets, are determined post balance date each calendar year and are thus not able to be accrued at the respective year end. Accordingly the STI amounts for Executive Committee KMP shown in the Remuneration tables on pages 13 and 14 are a composite of both EPS and CFROI bonus components accrued during the financial year and the personal performance KPI bonus component paid during the year for performance during the prior year.

Mr. Graham Burke is eligible to earn up to 4.5 million options over ordinary shares over the five years to March 2018. For the maximum number of options to vest, the three year Cumulative Annual Growth Rate ("CAGR") of normalised EPS must be at least 8% in each of the financial years 2015, 2016 and 2017, and the three year CAGR of dividends per share ("DPS") must be at least 8% in each of calendar years 2015, 2016 and 2017. If the EPS and DPS CAGR is less than 4% then no options vest, with a sliding scale of vesting of options between 4% and 8% growth on these two measures. This Long Term Incentive Plan was approved by shareholders on 15 November 2012.

During the prior year all of the remaining options under Mr. Burke's 2008 Option Plan were exercised or lapsed and no options remained at 30 June 2013. 603,863 third tranche EPS options vested and 396,137 third tranche EPS options lapsed during the prior year, the second tranche DPS options were retested in 2013 resulting in 1,000,000 DPS options vesting in March 2013, with the third tranche DPS options vesting in March 2013. On 21 February 2013 Mr. Burke exercised 2,250,036 first and second tranche vested options into ordinary shares at $2.00 per share, and on 1 March 2013 Mr. Burke exercised the remaining 2,603,863 second and third tranche vested options, also at $2.00 per share.

There have been no long term incentive plan allocations made during the year to any Executive KMP (2013: allotment of 300,000 shares on 29 November 2012 at $3.78 to Ms. J.E. Raffe under the Company's Executive Share Plan).

The detailed compensation arrangements of all KMP for the years ended 30 June 2014 and 30 June 2013 are set out in the tables on pages 13 and 14.

**A. EXECUTIVE SUMMARY (continued)**

**2. Remuneration Outline (continued)**

**Compensation of Key Management Personnel of the Company and the Group for the period ended 30 June 2014**

| Name | Position from / to (positions do not necessarily co-incide with employment dates) | Year | Note | Short term Benefits: Salary & Fees | Short term Benefits: Cash Bonus S.T.I. | Short term Benefits: Non-monetary Benefits | Short term Benefits: Other | Post Employment: Super-annuation | Post Employment: Retirement Benefits | Long Term Benefits: Incentive Plans | Long Term Benefits: Leave accrual [7] | Termin-ation Payment | L.T.I. Share-based Payment | Total | Total % Performance Related Pay |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | | | | | |
| Robert G. Kirby | Co-Executive Chairman & Co-CEO | 2014 | 4, 5 | 2,495,130 | 499,000 | 187,770 | 8,229 | 25,000 | - | - | 54,226 | - | - | 3,269,355 | 15.26% |
| | since 29/11/2013 | % | | 76.32 | 15.26 | 5.74 | 0.25 | 0.76 | - | - | 1.67 | - | - | 100.00 | |
| Graham W. Burke | Co-Executive Chairman & Co-CEO | 2014 | 2, 5 | 2,499,245 | 499,000 | 366,652 | - | 25,000 | - | - | 57,706 | - | 810,948 | 4,258,551 | 30.76% |
| | since 29/11/2013 | % | | 58.69 | 11.72 | 8.61 | - | 0.59 | - | - | 1.35 | - | 19.04 | 100.00 | |
| | ***Executive Director KMP Subtotals*** | | | ***4,994,375*** | ***998,000*** | ***554,422*** | ***8,229*** | ***50,000*** | - | - | ***111,932*** | - | ***810,948*** | ***7,527,906*** | |
| John R. Kirby | Deputy Chairman, Non-executive Director | 2014 | | 118,993 | - | 140 | - | 11,007 | - | - | - | - | - | 130,140 | - |
| | since 01/07/2012 | % | | 91.43 | - | 0.11 | - | 8.46 | - | - | - | - | - | 100.00 | |
| David J. Evans | Independent Director | 2014 | | 155,606 | - | 59 | - | 14,394 | - | - | - | - | - | 170,059 | - |
| | since 02/01/2007 | % | | 91.50 | - | 0.03 | - | 8.47 | - | - | - | - | - | 100.00 | |
| Peter D. Jonson | Independent Director | 2014 | 1 | 151,030 | - | 50 | 34,985 | 13,970 | - | - | - | - | - | 200,035 | - |
| | since 24/01/2001 | % | | 75.50 | - | 0.02 | 17.49 | 6.99 | - | - | - | - | - | 100.00 | |
| D. Barry Reardon | Independent Director | 2014 | | 150,000 | - | - | - | - | - | - | - | - | - | 150,000 | - |
| | since 24/03/1999 | % | | 100.00 | - | - | - | - | - | - | - | - | - | 100.00 | |
| Peter M. Harvie | Independent Director | 2014 | | 91,533 | - | 72 | - | 8,467 | - | - | - | - | - | 100,072 | - |
| | since 07/04/2013 | % | | 91.47 | - | 0.07 | - | 8.46 | - | - | - | - | - | 100.00 | |
| Robert Le Tet | Independent Director | 2014 | 1 | - | - | 99 | 139,987 | - | - | - | - | - | - | 140,086 | - |
| | since 02/04/2007 | % | | - | - | 0.07 | 99.93 | - | - | - | - | - | - | 100.00 | |
| Timothy M. Antonie | Independent Director | 2014 | 1 | 135,469 | - | 58 | 11,993 | 12,531 | - | - | - | - | - | 160,051 | - |
| | since 01/12/2010 | % | | 84.64 | - | 0.04 | 7.49 | 7.83 | - | - | - | - | - | 100.00 | |
| | ***Non-Executive Director KMP Subtotals*** | | | ***802,631*** | - | ***478*** | ***186,965*** | ***60,369*** | - | - | - | - | - | ***1,050,443*** | |
| | **Director Subtotals** | | | **5,797,006** | **998,000** | **554,900** | **195,194** | **110,369** | - | - | **111,932** | - | **810,948** | **8,578,349** | |
| **Executives** | | | | | | | | | | | | | | | |
| Julie E. Raffe | Finance Director | 2014 | 3, 4, 6 | 699,901 | 655,173 | 50,180 | 6,897 | 25,000 | - | - | 29,248 | - | 179,725 | 1,646,124 | 50.72% |
| | since 15/05/2012 | % | | 42.52 | 39.80 | 3.05 | 0.42 | 1.52 | - | - | 1.77 | - | 10.92 | 100.00 | |
| Simon T. Phillipson | General Counsel | 2014 | 3, 4, 6 | 564,199 | 532,069 | 1,023 | 4,134 | 25,000 | - | - | (3,664) | - | 41,256 | 1,164,017 | 49.25% |
| | since 13/05/1996 | % | | 48.47 | 45.71 | 0.09 | 0.36 | 2.15 | - | - | (0.32) | - | 3.54 | 100.00 | |
| Clark J. Kirby | Chief Operating Officer | 2014 | 3, 4, 6 | 588,497 | 530,204 | 1,023 | 756 | 25,000 | - | - | 97,312 | - | 61,883 | 1,304,675 | 45.38% |
| | since 15/05/2012 | % | | 45.11 | 40.64 | 0.08 | 0.05 | 1.92 | - | - | 7.46 | - | 4.74 | 100.00 | |
| David Kindlen | Chief Information Officer | 2014 | 3, 4, 6 | 308,303 | 199,800 | 1,023 | 4,428 | 25,000 | - | - | (2,451) | - | 20,628 | 556,731 | 39.59% |
| | since 01/12/2006 | % | | 55.38 | 35.89 | 0.18 | 0.80 | 4.49 | - | - | (0.45) | - | 3.71 | 100.00 | |
| | ***Executive Committee KMP Subtotals*** | | | ***2,160,900*** | ***1,917,246*** | ***53,249*** | ***16,215*** | ***100,000*** | - | - | ***120,445*** | - | ***303,492*** | ***4,671,547*** | |
| **Total for Key Management Personnel for 2014** | | | | **7,957,906** | **2,915,246** | **608,149** | **211,409** | **210,369** | - | - | **232,377** | - | **1,114,440** | **13,249,896** | |

1. Includes value of shares issued under the Directors' Share Plan.
2. Includes amortised value of share based payment of options over ordinary shares.
3. Includes amortised value of share based payment under the Executive Share Plan.
4. Includes other non-monetary benefit for cost of compulsory group salary continuance insurance premiums.
5. Includes CFROI and EPS STI bonus accruals for 2014.
6. Includes CFROI and EPS STI bonus accruals for 2014 and paid personal performance STI bonus payments for 2013.
7. Includes movement in annual leave and long service leave accruals.

**A. EXECUTIVE SUMMARY (continued)**

**2. Remuneration Outline (continued)**

**Compensation of Key Management Personnel of the Company and the Group for the period ended 30 June 2013**

| Name | Position from / to (positions do not necessarily co-incide with employment dates) | Year | Note | Short term Benefits: Salary & Fees | Short term Benefits: Cash Bonus S.T.I. | Short term Benefits: Non-monetary Benefits | Short term Benefits: Other | Post Employment: Super-annuation | Post Employment: Retirement Benefits | Long Term Benefits: Incentive Plans | Long Term Benefits: Long Service Leave accrual | Termin-ation Payment | L.T.I. Share-based Payment | Total | Total % Performance Related Pay |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | | | | | |
| Robert G. Kirby | Executive Chairman | 2013 | 4 | 2,426,107 | - | 142,873 | 5,785 | 25,000 | - | - | 56,865 | - | - | 2,656,630 | - |
| | since 03/06/2010 | % | | 91.32 | - | 5.38 | 0.22 | 0.94 | - | - | 2.14 | - | - | 100.00 | |
| Graham W. Burke | Chief Executive Officer | 2013 | 2, 5 | 2,429,000 | 982,500 | 188,756 | - | 25,000 | - | - | 61,708 | - | 240,417 | 3,927,381 | 31.14% |
| | since 09/09/1988 | % | | 61.85 | 25.02 | 4.80 | - | 0.64 | - | - | 1.57 | - | 6.12 | 100.00 | |
| | ***Executive Director KMP Subtotals*** | | | ***4,855,107*** | ***982,500*** | ***331,629*** | ***5,785*** | ***50,000*** | - | - | ***118,573*** | - | ***240,417*** | ***6,584,011*** | |
| John R. Kirby | Deputy Chairman, Non-executive Director | 2013 | | 119,266 | - | 909 | - | 10,734 | - | - | - | - | - | 130,909 | - |
| | since 01/07/2012 | % | | 91.11 | - | 0.69 | - | 8.20 | - | - | - | - | - | 100.00 | |
| Peter D. Jonson | Independent Director | 2013 | 1 | 137,615 | - | 81 | 49,989 | 12,385 | - | - | - | - | - | 200,070 | - |
| | since 24/01/2001 | % | | 68.78 | - | 0.04 | 24.99 | 6.19 | - | - | - | - | - | 100.00 | |
| D. Barry Reardon | Independent Director | 2013 | | 150,000 | - | - | - | - | - | - | - | - | - | 150,000 | - |
| | since 24/03/1999 | % | | 100.00 | - | - | - | - | - | - | - | - | - | 100.00 | |
| Peter M. Harvie | Independent Director | 2013 | | 100,000 | - | 23 | - | - | - | - | - | - | - | 100,023 | - |
| | since 07/04/2013 | % | | 99.98 | - | 0.02 | - | - | - | - | - | - | - | 100.00 | |
| David J. Evans | Independent Director | 2013 | | 170,000 | - | 270 | - | - | - | - | - | - | - | 170,270 | - |
| | since 02/01/2007 | % | | 99.84 | - | 0.16 | - | - | - | - | - | - | - | 100.00 | |
| Robert Le Tet | Independent Director | 2013 | 1 | - | - | 81 | 139,993 | - | - | - | - | - | - | 140,074 | - |
| | since 02/04/2007 | % | | - | - | 0.06 | 99.94 | - | - | - | - | - | - | 100.00 | |
| Timothy M. Antonie | Independent Director | 2013 | 1 | 117,431 | - | 50 | 31,990 | 10,569 | - | - | - | - | - | 160,040 | - |
| | since 01/12/2010 | % | | 73.38 | - | 0.03 | 19.99 | 6.60 | - | - | - | - | - | 100.00 | |
| | ***Non-Executive Director KMP Subtotals*** | | | ***794,312*** | - | ***1,414*** | ***221,972*** | ***33,688*** | - | - | - | - | - | ***1,051,386*** | |
| | **Director Subtotals** | | | **5,649,419** | **982,500** | **333,043** | **227,757** | **83,688** | - | - | **118,573** | - | **240,417** | **7,635,397** | |
| **Executives** | | | | | | | | | | | | | | | |
| Julie E. Raffe | Finance Director | 2013 | 3, 4, 6 | 682,617 | 594,297 | 78,622 | 26,289 | 25,000 | - | - | 23,688 | - | 133,424 | 1,563,937 | 46.53% |
| | since 15/05/2012 | % | | 43.65 | 38.00 | 5.03 | 1.68 | 1.60 | - | - | 1.51 | - | 8.53 | 100.00 | |
| Simon T. Phillipson | General Counsel | 2013 | 3, 4, 6 | 544,725 | 505,277 | 1,023 | 24,352 | 25,000 | - | - | 19,648 | - | 41,256 | 1,161,281 | 47.06% |
| | since 13/05/1996 | % | | 46.91 | 43.51 | 0.09 | 2.10 | 2.15 | - | - | 1.69 | - | 3.55 | 100.00 | |
| Clark J. Kirby | Chief Operating Officer | 2013 | 3, 4, 6 | 574,647 | 479,025 | 2,702 | 42,790 | 25,000 | - | - | - | - | 61,883 | 1,186,047 | 45.61% |
| | since 15/05/2012 | % | | 48.45 | 40.39 | 0.23 | 3.60 | 2.11 | - | - | - | - | 5.22 | 100.00 | |
| David Kindlen | Chief Information Officer | 2013 | 3, 4, 6 | 284,602 | 225,371 | 157 | (5,549) | 25,000 | - | - | 19,293 | - | 20,628 | 569,502 | 43.20% |
| | since 01/12/2006 | % | | 49.97 | 39.57 | 0.03 | (0.97) | 4.39 | - | - | 3.39 | - | 3.62 | 100.00 | |
| | ***Executive Committee KMP Subtotals*** | | | ***2,086,591*** | ***1,803,970*** | ***82,504*** | ***87,882*** | ***100,000*** | - | - | ***62,629*** | - | ***257,191*** | ***4,480,767*** | |
| **Total for Key Management Personnel for 2013** | | | | **7,736,010** | **2,786,470** | **415,547** | **315,639** | **183,688** | - | - | **181,202** | - | **497,608** | **12,116,164** | |

1. Includes value of shares issued under the Directors' Share Plan.
2. Includes amortised value of share based payment of options over ordinary shares and reversal of amortised value for lapsed 2008 options.
3. Includes amortised value of share based payment under the Executive Share Plan.
4. Includes other non-monetary benefit for cost of compulsory group salary continuance insurance premiums and movement in annual leave accrual.
5. Includes CFROI and EPS STI bonus accruals for 2013.
6. Includes CFROI and EPS STI bonus accruals for 2013 and paid personal performance STI bonus payments for 2012.

**B. REMUNERATION STRATEGY AND POLICY**

The performance of the Company depends upon the skills and quality of its Directors and senior executives. To prosper the Group must attract, motivate and retain highly skilled Directors and senior executives. The compensation structure is designed to strike an appropriate balance between fixed and variable remuneration, rewarding capability and experience and providing recognition for contribution to the Group's overall goals and objectives.

The objectives of the remuneration strategy are to:

- Reinforce the short, medium and long term financial targets and business strategies of the Group as set out in the strategic business plans of the Group and each operating division;
- Provide a common interest between executives and shareholders by aligning the rewards that accrue to executives to the creation of value for shareholders; and
- Be competitive in the markets in which the Group operates in order to attract, motivate and retain high calibre executives.

An explanation of the performance conditions, the methods used to assess whether the performance conditions have been satisfied and why those methods were chosen, including external comparisons, are set out below in the relevant sections of this Report. A discussion of the relationship between the Group's remuneration policy and the Company's performance is set out below in section H of this Report.

To implement this policy and to seek to meet the specified objectives, the Group embodies the following principles in its compensation framework:

- Provide competitive rewards to attract and retain high calibre Directors and senior executives who are dedicated to the interests of the Company;
- Link executive compensation to the achievement of the Group's or the relevant division's financial and operational performance;
- All Executive Committee KMP and Executive Director KMP have a portion of their compensation 'at risk' by having the opportunity to participate in the Company's bonus scheme where specified criteria are met, including criteria relating to profitability and cash flow, or other pre-determined personal performance indicators and benchmarks; and
- Establish appropriate, demanding, personalised performance hurdles in relation to variable executive remuneration and bonuses.

The framework of the Group's compensation policy provides for a mix of fixed pay and variable ('at risk') pay:

- Short term, fixed compensation;
- Other benefits and post-employment compensation such as superannuation; and
- Variable Compensation:
  - Short Term performance Incentive Bonus ("STI"); and
  - Long Term equity-linked performance Incentive ("LTI").

The Charter of the Company's Remuneration Committee provides for the review and decision on the compensation arrangements of the Company's Executive Director KMP, Executive Committee KMP and all other senior corporate and divisional executives, including any equity participation by Executive Director KMP and Executive Committee KMP as well as other non-KMP executives. The Committee takes external advice from time to time on the compensation of the Executive Director KMP, Executive Committee KMP and non-KMP senior executives with the overall objective of motivating and appropriately rewarding performance.

The Charter, role, responsibilities, operation and membership of the Remuneration Committee of the Board are set out in the Corporate Governance Statement in the Company's Annual Report.

**C. NON-EXECUTIVE DIRECTOR KMP REMUNERATION**

**1. Objective**

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain appropriately qualified and experienced Non-Executive Director KMP of the highest calibre, whilst incurring a cost which is acceptable to shareholders. The Company operates a complex business in fiercely competitive markets and the duties and obligations of Non-Executive Director KMP are becoming increasingly onerous and time consuming.

**2. Structure**

The Constitution of the Company and the ASX Listing Rules specify that the annual aggregate remuneration of Non-Executive Director KMP shall be determined from time to time by shareholders in general meeting. An amount not exceeding the annual aggregate remuneration so determined is then divided between the Non-Executive Director KMP as agreed.

The latest determination was at the Annual General Meeting held on 15 November 2012, when shareholders approved an aggregate remuneration level for Non-Executive Director KMP of $1,300,000 per annum (previously an aggregate annual limit set in 1998 of $800,000). This aggregate fee level includes any compensation paid to Non-Executive Director KMP who may serve on Boards of the consolidated entity. Aggregate payments to Non-Executive Director KMP have never exceeded the total pool approved by shareholders.

Each Non-Executive Director KMP receives a fee for being a Non-Executive Director of the Company. An additional fee is also paid for each Board Committee or major subsidiary or affiliate on which a Non-Executive Director KMP serves. The payment of additional fees for serving on a Committee or subsidiary or affiliate Board recognises the additional time commitment required by that Non-Executive Director KMP.

To preserve the independence and impartiality of Non-Executive Director KMP, no element of Non-Executive Director KMP remuneration is 'at risk' based on the performance of the Company and does not incorporate any bonus or incentive element.

Board and Committee fees are set by reference to a number of relevant considerations including the responsibilities and risks attaching to the role, the time commitment expected of Non-Executive Director KMP, fees paid by peer-sized companies and independent advice received from external advisors. The remuneration arrangements of Non-Executive Director KMP are periodically reviewed by the Remuneration Committee to ensure they remain in line with general industry practice, the last review having taken effect from July 2012.

From July 2012, Non-Executive Director KMP have been paid at the rate of $100,000 per annum, payable quarterly in arrears. In addition Non-Executive Director KMP receive an additional $20,000 per annum for each Board Committee on which they serve, other than for the Nomination Committee which is set at 50% of the Committee fee. The Lead Independent Director and, from July 2012, the Deputy Chairman, receives an additional $30,000 per annum and Committee Chairs are paid at a rate of 50% above other Committee members in recognition of the additional workload.

**C. NON-EXECUTIVE DIRECTOR KMP REMUNERATION (continued)**
**2. Structure (continued)**

During the 2013 and 2014 years Mr. D.B. Reardon received an additional $30,000 fee per annum for his services on the board of Village Roadshow Pictures International Pty. Ltd., and Mr. D.J. Evans received an additional $30,000 fee per annum for his services on various Village Roadshow Entertainment Group Limited companies.

The Company does not have and never has had a retirement benefit scheme for Non-Executive Director KMP, other than their individual statutory superannuation benefits which, where applicable, are included as part of the aggregate fee for Non-Executive Director KMP as remuneration.

In addition, although not required by the Company's constitution, the Company considers it appropriate for Non-Executive Directors to have a stake in the company on whose board he or she sits and the Company encourages Non-Executive Director KMP to hold shares in the Company. Subject to any necessary approvals as may be required by law or by ASX Listing Rules, Directors may be invited from time to time to participate in share and 'in substance option' plans offered by the Company.

The Directors' Share Plan ("DSP"), effective from 1 January 2011 and renewed by shareholders at the 2013 Annual General Meeting of the Company, enables Non-Executive Director KMP to salary sacrifice some or all of their fees into ordinary shares in the Company. The shares are allotted on a salary sacrifice basis at the weighted average market price on ASX on the first 5 trading days of the third month of the relevant quarter, rounded up to the next whole cent. Non-Executive Director KMP can vary their participation in the DSP each calendar year. The various allotments during the year under the DSP are set out in the table below.

| Name | Allotment Date | No. shares | Issue Price |
|---|---|---|---|
| P.D. Jonson | 9 September 2013 | 1,984 | $6.30 |
| | 9 December 2013 | 1,707 | $7.32 |
| | 11 March 2014 | 684 | $7.30 |
| | 10 June 2014 | 644 | $7.76 |
| T.M. Antonie | 9 September 2013 | 952 | $6.30 |
| | 9 December 2013 | 819 | $7.32 |
| R. Le Tet | 9 September 2013 | 5,555 | $6.30 |
| | 9 December 2013 | 4,781 | $7.32 |
| | 11 March 2014 | 4,794 | $7.30 |
| | 10 June 2014 | 4,510 | $7.76 |

The various share, option and 'in substance option' entitlements of all Directors are advised to ASX in accordance with the Listing Rules and the Act requirements and are set out on page 3 of the Directors' Report.

The remuneration of Non-Executive Director KMP for the periods ending 30 June 2014 and 30 June 2013 are detailed on pages 13 and 14 of this Report.

**D. EXECUTIVE KMP COMPENSATION**

The names and positions of the Executive KMP of the Group for the period ending 30 June 2014 and 2013 are detailed on page 11 of this Report.

**1. Objective**

The Company aims to reward the Executive Director KMP and Executive Committee KMP with a level and mix of remuneration commensurate with the seniority of their position and responsibilities within the Group, so as to:

- reward for Group financial performance against targets set by reference to appropriate benchmarks;
- reward for achievement of annually set personal performance criteria;
- align the interests of the Executive Committee KMP with those of the Company and of its shareholders;
- link their rewards to the strategic goals and performance of the Group; and
- ensure total compensation is competitive by market standards for the relevant industry.

**2. Structure**

In determining the level and make-up of Executive KMP compensation, the Remuneration Committee seeks independent advice of external consultants as required from time to time to advise on market levels of compensation for comparable roles in the entertainment industry. The proportion of fixed pay and variable compensation (potential short term and long term incentives) is monitored by the Remuneration Committee, taking into account the Group's then present circumstances and its future short-term and longer-term goals.

The compensation of Executive Director KMP and Executive Committee KMP consists of the following key elements:

- Short term, fixed compensation;
- Other compensation such as post employment compensation (including superannuation);
- Variable Compensation:
  - Short Term Incentive Bonus ("STI"); and
  - Long Term Incentive ("LTI").

On 29 November 2013 Mr. Graham Burke and Mr. Robert Kirby both became Co-Executive Chairman and Co-Chief Executive Officer of VRL with no change to their remuneration arrangements other than Mr. Burke's $1.0 million annual performance bonus being shared equally between Mr. Burke and Mr. Kirby. This change in titles was in recognition that both Mr. Kirby and Mr. Burke work closely together as a highly effective team beyond the traditional roles and boundaries of individual Chairman and CEO. The change also reflects that Mr. Kirby and Mr. Burke effectively share both positional functions between them. The flexibility that the joint titles brings to Mr. Kirby and Mr. Burke also facilitates enhanced senior executive input into the day-to-day operations of the Company with both men primarily concentrating their various efforts in different parts of the Company's businesses.

The details of the fixed and variable components (and the relevant percentages) of each individual Executive KMP of the Company and the Group are set out on pages 13 and 14 of this Report.

The remuneration and terms and conditions of employment for the Executive Director KMP and the Executive Committee KMP are set out in individual contracts of employment. The details of each contract of the relevant Executive KMP are outlined in section E of this Report.

## D. EXECUTIVE KMP COMPENSATION (continued)
### 3. Fixed Compensation

#### (a) Objective

The level of fixed pay is set so as to provide a base level of compensation which is fair, reasonable and appropriate to the seniority of the position and to be competitive in the market. Fixed pay (defined as the base compensation payable to an individual and which is not dependent on the outcome of specific criteria) is reviewed annually by the Remuneration Committee, taking into account other elements of the compensation mix, such as STI bonus and LTI arrangements.

The Remuneration Committee is responsible for approval of the level of fixed pay for Executive KMP and all other senior corporate and divisional executives. No specific remuneration review was undertaken during the year by the Company, however during the prior year the Remuneration Committee commissioned a survey-based market benchmarking review from a remuneration consultant, Mercer (Australia) Pty. Ltd., for Mr. David Kindlen, the Group's Chief Information Officer, for which the Company paid $2,800. At the direction of the Remuneration Committee, the consultant was factually briefed by the Company's Finance Director, Ms. Julie Raffe, to whom Mr. Kindlen reports. The 2013 review was conducted without Mr. Kindlen's knowledge and no contact was made by the consultant with Mr. Kindlen for the purposes of conducting the review and accordingly the Company is satisfied that that the remuneration recommendation was made free from undue influence by Mr. Kindlen. During the year other remuneration advice was provided to the Group by the consultant mainly for the provision of market remuneration data for salaried staff other than for KMP, for which the Company paid $5,600 (2013: $5,055).

#### (b) Structure

The Executive Director KMP and Executive Committee KMP receive their fixed (primary) compensation in a variety of forms including cash, superannuation and, where applicable, taxable value of fringe benefits such as motor vehicles and other non-monetary benefits. The fixed compensation component is not 'at risk' but is set by reference to competitive industry expectations and the scale and complexity of the different businesses together with appropriate benchmark information for the individual's responsibilities, performance, qualifications, experience and location.

The fixed compensation component of each Executive Director KMP and Executive Committee KMP for the periods ended 30 June 2014 and 30 June 2013 is detailed on pages 13 and 14 of this Report.

### 4. Variable Compensation — Short Term Incentive ("STI") Bonus

#### (a) Objective

For the Executive Director KMP and the Executive Committee KMP the objective of the STI bonus program is to link the achievement of the Group's annual operational targets with the compensation received by the Executive Director KMP and the Executive Committee KMP charged with meeting those targets, as well as relevant personalised individual targets for Executive Committee KMP. The total potential STI bonus available is set at a level so as to provide appropriate incentive to the Executive Committee KMP to achieve the operational targets set by the Group and such that the cost to the Group is reasonable in the circumstances. The STI bonus program is also available to other non-KMP executives.

The STI is designed so that a large portion of an executive's individual remuneration is 'at risk' against meeting targets linked to the Group's annual performance and mid-term business objectives, weighted so that the more senior the executive the larger the proportion of remuneration that is at risk. For the Executive Committee KMP, their STI is a blend of financial KPIs applicable to the Group together with personal KPIs based on the relevant responsibilities of each role, whereas the Executive Director KMP's STI bonus is based solely on CFROI and EPS financial KPIs.

#### (b) Structure

All Executive Committee KMP, as well as other corporate and divisional executives, are eligible to participate in the Group's annual STI bonus scheme after at least six months of service. Actual STI bonus payments made to the Executive Director KMP and to each Executive Committee KMP depend on the extent to which pre-determined financial performance benchmarks and/or other individual financial or non-financial criteria set at the beginning of each financial year, are met.

The Group has predetermined financial performance benchmarks which must be met in order to trigger payments under the STI bonus scheme. These Group specific and tailored performance conditions were chosen so as to align the STI payments to the financial performance of the Company and the Group as a whole. These performance criteria include EPS growth benchmarks and minimum CFROI targets.

The CFROI performance component used relates to earnings before interest, tax, depreciation and amortisation, excluding material items of income and expense and discontinued operations ("EBITDA") as a percentage of capital employed, and capital employed is represented by total shareholders' equity plus net debt. Bonuses are calculated based on the ratio from year to year and are on a sliding scale between 10% and 20% with nil bonus for a CFROI achieved in any year of less than 10% and capped at the maximum bonus where CFROI exceeds 20%. The Company considers that this financial performance condition relating to the Group's underlying cash flows is appropriately challenging taking into account the group's cost of capital and investment hurdle rates and directly links STI rewards to those relevant Executive KMP with the financial performance of the Company and the Group and the flow-on consequences for shareholders.

Similarly the Company has chosen EPS as the other suitable STI performance condition due to the direct linkage to the Group's underlying financial performance. Bonuses using the EPS criteria are calculated such that where the Company's EPS growth percentage is less than the growth achieved for the ASX 300 index, nil bonus is payable, and where the Company's EPS growth equals or exceeds 10% more than the ASX 300's EPS growth for the relevant period (being growth over one or three years, as appropriate), 100% of that bonus component is payable. The Company considers that no direct segment, market index or industry comparators exist for the Company, and thus the ASX 300 comparator has been selected for benchmarking this performance condition as a proxy for similarly sized or larger companies listed on ASX operating predominantly in Australia, and the performance of this benchmark is independently externally verifiable.

For the 2013 financial year Mr. Graham Burke as the VRL CEO was eligible to earn up to $1.0 million in the form of an annual bonus and for the 2014 year this $1.0 million STI bonus was split evenly between Mr. Burke and Mr. Robert Kirby, the two Executive Director KMP. 50% of the bonus is based on CFROI and 50% is based on EPS growth relative to the top 300 stocks listed on the ASX. For the year ended 30 June 2014 the CFROI bonus component amounted to $249,000 each (2013: $500,000 for Mr. Burke only) and the EPS bonus component amounted to $250,000 each (2013: $482,500 for Mr Burke only) and, being due and payable, have been accrued for at 30 June 2014. The CFROI hurdle rates achieved were at 99.6% of the maximum hurdle rate for the 2014 financial year (2013: 100%) and the 2014 EPS bonus component for the EPS growth over the past 3 years amounted to 100% of the maximum hurdle rate (2013: 96.6% over one year).

**D. EXECUTIVE KMP COMPENSATION (continued)**
**4. Variable Compensation — Short Term Incentive ("STI") Bonus (continued)**
**(b) Structure (continued)**

In addition to CFROI and EPS performance criteria, for Executive Committee KMP individual personalised key performance indicators ("KPIs") are also set each year including appropriate financial and non-financial performance metrics relevant to the role, position and responsibilities of the individual. The KPIs for the following year are set for each individual Executive Committee KMP and that individual's performance against the previous year's KPIs is reviewed annually.

Only the components of STI bonus payments that can be accurately determined are accrued at balance date - remaining components of STI bonus payments, such as those related to personal performance criteria for Executive Committee KMP, are calculated after balance date and are paid in the following October.

The STI bonus amounts shown in the Remuneration tables for Executive Committee KMP for the 2014 and 2013 years include both the accrued CFROI and EPS components for the current year, being due and payable, as well as their personal performance bonus components paid in relation to the prior financial year. Accordingly the STI figures for 2014 and 2013 in the Remuneration tables detailed on pages 13 and 14 of this Report are a composite of various years' bonus components and may not be directly comparable.

The overall review of proposed bonus payments to Executive Committee KMP is decided annually by the Remuneration Committee on the recommendation of the Executive Director KMP. All bonuses, including any recommended STI bonus payments for the Executive Director KMP and for Executive Committee KMP, are approved by the Company's Remuneration Committee.

Future STI bonuses of the Executive KMP are dependent on a number of external variables, including the EPS of the Company and the financial performance of the Group. For all Executive KMP the minimum potential value of the STI which could be paid in respect of any year, for example as a result of poor performance or missing tailored, pre-set targets, would be nil, and the maximum STI bonus payable in respect of any year would be the maximum amounts, as detailed in the table below for the current year. Therefore, the theoretical percentage of maximum STI bonus payments that could be forfeited in respect of any year would be 100% of the maximum amounts, as detailed in the table below for the current year. In addition, transaction based specific bonuses may be payable to one or more Executive KMP where specific medium term strategic challenges are encountered and successfully overcome.

The STI bonus arrangements for the Executive KMP for the year ended 30 June 2014 are set out as follows:

| Name | Title | Maximum STI | Methodology |
|---|---|---|---|
| Robert G. Kirby | Co-Executive Chairman and Co-Chief Executive Officer | $500,000 * | 50% based on CFROI, 50% based on increase in EPS compared to ASX 300 performance |
| Graham W. Burke | Co-Executive Chairman and Co-Chief Executive Officer | $500,000 # | 50% based on CFROI, 50% based on increase in EPS compared to ASX 300 performance |
| Julie E. Raffe | Finance Director | 100% of base salary | 50% based on individual KPIs, 25% based on CFROI, 25% based on increase in EPS compared to ASX 300 performance |
| Simon T. Phillipson | General Counsel | 100% of base salary | 50% based on individual KPIs, 25% based on CFROI, 25% based on increase in EPS compared to ASX 300 performance |
| Clark J. Kirby | Chief Operating Officer | 100% of base salary | 50% based on individual KPIs, 25% based on CFROI, 25% based on increase in EPS compared to ASX 300 performance |
| David Kindlen | Chief Information Officer | $200,000 | 50% based on individual KPIs, 25% based on CFROI, 25% based on increase in EPS compared to ASX 300 performance |

* Previously nil for 2013
# Previously $1,000,000 maximum

The STI bonus payments made to each of the Executive Director KMP and the Executive Committee KMP in the periods ending 30 June 2014 and 30 June 2013 and the relative percentage of such STI incentive remuneration to total remuneration are detailed on pages 13 and 14 of this Report.

**5. Variable Remuneration — Long Term Incentive ("LTI")**

**(a) Objective**

The objective of the Company's various LTI plans is to reward Executive KMP in a manner which assists in aligning this element of their remuneration with the creation of shareholder wealth.

During the 2014 and 2013 years there have been 3 LTI plans in operation within the consolidated entity:
- The Company's Executive Share Plan and Loan Facility ("ESP"), introduced in 1996;
- The 2008 Option Plan over ordinary shares to Mr. Graham Burke, the Company's CEO ("2008 OP"); and
- The 2012 Option Plan over ordinary shares to Mr. Graham Burke, the Company's CEO and from 29 November 2013, Co-Executive Chairman and Co-Chief Executive Officer ("2012 OP").

In addition the Group has a loan arrangement over a 1993 legacy equity-linked performance plan in which Mr. P.M. Harvie is the sole remaining participant, where dividends are used to repay the interest accrued with any surplus dividend payment used to repay the capital amount of the loan. All grants to Mr. Harvie under this legacy plan were in his capacity as an executive of the consolidated entity and were prior to him becoming part of KMP of the Company. Loans over 64,350 shares were repaid from dividends during 2014 (2013: Nil shares).

Participation in the LTI plans listed above for the Group's Executive KMP is set out in Note 25 to the Financial Statements.

All LTI plans have been approved by shareholders at the time of their introduction. Grants are made from time to time as appropriate and all proposed grants to Directors of the Company are put to shareholders for approval. The quantum of LTI grants are reflective of the seniority of the position of the relevant executive and their ability to contribute to the overall performance of the Group.

The LTI for Mr. Burke under the 2008 OP and 2012 OP are specifically designed as 'at risk' remuneration, linked to the dividend and earnings per share performance. The performance hurdles relevant to the 2008 and 2012 grant of options to Mr. Burke are described below. The 2008 OP ceased in March 2013.

**D. EXECUTIVE KMP COMPENSATION (continued)**
**5. Variable Remuneration — Long Term Incentive ("LTI") (continued)**
**(a) Objective (continued)**

The LTI plans for other Executive Committee KMP and senior executives have no specific performance conditions for the removal of restrictions over the relevant shares other than successful achievement of annual personal performance criteria. Any value accruing to the Executive Committee KMP is derived from improvement in the Company's share price and dividends and distributions by the Company. The LTI plan is also regarded by the Remuneration Committee as a partial retention mechanism and encourages a sense of ownership with those Executive Committee KMP and senior executives to whom the LTI's are granted, assisting in aligning their long term interests with those of shareholders.

The shares that are the subject of the ESP are offered at market value on the date of issue to the Executive Committee KMP and other senior executives and the benefits, if any, under the ESP are correlated to the performance of the Company via the share price performance of the underlying share.

The Company considers that the five year period over which the ESP shares are 'earned' is appropriate given the shorter term performance hurdles to which each Executive KMP and senior executive is subject. Furthermore the long term horizon of the loans from the consolidated entity for the ESP continues past the final restricted holding date of the shares for the duration of the employment of the Executive KMP and senior executive with the Group, further demonstrating the alignment of the LTI with the long term interests of the Company's shareholders.

There are no provisions within any of the LTI plans for the automatic removal of holding restrictions on the relevant shares in the event of a change of control of the Company.

Other than as noted below, no options have been granted, exercised or lapsed during the reporting period. Details of shares in the Company, unissued shares under option, shares issued as a result of the exercise of options and 'in substance options' held during the period in relation to Executive KMP and Non-Executive Director KMP of the Company are set out in section F of this Report.

The ESP has limited recourse loans secured over the relevant shares together with a buy-back option in the event of default. The Company has full control over all loans and the repayment thereof and full control over all shares including through holding locks. From 1 July 2011 the Company has implemented a policy that specifically prohibits the hedging of incentive remuneration granted to Executive KMP, whether restricted or unrestricted. For the 2008 and 2012 options granted to Mr. Burke, the terms of the offer specifically prohibit the hedging of unvested options by Mr. Burke. A summary of the Company's incentive remuneration hedging policy is set out in the Corporate Governance Statement in the Company's Annual Report.

The Company has used the fair value measurement provisions of AASB 2: *Share-based Payment* for all options or equity instruments granted to Executive KMP and senior executives after 7 November 2002 which had not vested as at 1 January 2005. Under AASB 2: *Share-based Payment* these are all required to be accounted for and valued as equity settled options. For the purpose of this Report, these have been referred to as 'in substance options' even where the equity instrument itself is not a share option.

The fair value of such 'in substance option' grants are disclosed as part of Executive KMP compensation and are amortised on a straight-line basis over five years. The Company does not consider it is appropriate to ascribe a 'value' to the LTI of Executive KMP for remuneration purposes other than the amortised fair value measurement in accordance with the provisions of AASB 2: *Share-based Payment.*

From 1 January 2005, options or 'in substance options' granted as part of Executive KMP and other senior executives' compensation have been valued using the Black Scholes or binomial option-pricing model or the Monte Carlo simulation technique, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

A detailed summary of these various LTI plans is set out below.

**(b) Structure**

***(i) Executive Share Plan and Loan Facility ("ESP")***

The Company's ESP was approved by shareholders on 19 November 1996 and allowed for the issue of up to 5% of the Company's issued A Class preference shares to executives and employees of the consolidated entity and significant associated entities. Directors of the Company are not eligible to participate in the ESP. The conversion of the Company's preference shares on 16 November 2010 into ordinary shares also applied to ESP preference shares and the ESP now only relates to ordinary shares.

All grants to Mr. P.M. Harvie under the ESP were in his capacity as an executive of the consolidated entity and were prior to him becoming a Director of the Company.

Offers are at the discretion of the Company's Remuneration Committee and shares are issued at the 5-day weighted average price on the market prior to allotment, rounded up to the next whole cent. The shares are held directly by the Executive Committee KMP who pays for the allotment by obtaining a loan from the consolidated entity which holds the ESP shares as security.

The ESP was amended in 2012. Shares issued prior to 2012 are earned (become unrestricted) at the rate of 20% per year over five years from date of issue. The loan bears interest at ten cents per share per annum and the first ten cents of dividends per share each year is used to repay the interest accrued and 50% of the remaining dividend per share is used to repay the capital amount of the loan. For shares issued in 2012 and thereafter, one third are earned and become exercisable at the end of years 3, 4 and 5 from the date of issue and the loan bears interest at twenty cents per share per annum and the first twenty cents of dividends per share per year is used to repay the interest charged and 50% of the remaining dividend per share is used to repay the capital amount of the loan. For shares issued in 2012 or thereafter, where the loan balance owing falls below $2.00 per share, the interest rate becomes 10% of the balance owing on the loan.

If the Executive Committee KMP or other senior executive resigns or is dismissed, the restricted shares are forfeited and the loan on the remaining unrestricted shares must be repaid within six months or such other time as approved by the Company's Remuneration Committee. In circumstances where the market value of the remaining ESP shares at the end of the six month period is less than the amount owing on the loan, then the Company will buy-back the shares and cancel them in repayment of the loan without further recourse to the former Executive Committee KMP or other senior executive. This is the basis on which they have been described as 'in substance options'.

There have been no long term incentive plan allocations during the year to any Executive Committee KMP (2013: allotment of 300,000 shares on 29 November 2012 at $3.78 to Ms. J.E. Raffe under the Company's Executive Share Plan). The fair value of each ESP 'in substance option' for Ms. Raffe estimated at date of grant on 29 November 2012 was $1.05. The notional adjusted equity value of the allotment and the percentage of each Executive Committee KMP's total remuneration under the LTI are detailed on pages 13 and 14 of this Report.

**D. EXECUTIVE KMP COMPENSATION (continued)**
**5. Variable Remuneration — Long Term Incentive ("LTI") (continued)**
**(b) Structure (continued)**

***(ii) 2008 Option Plan for CEO ("2008 OP")***

Mr. Graham Burke, the Company's CEO and from 29 November 2013 Co-Executive Chairman and Co-Chief Executive Officer and an Executive Director KMP, was granted of up to 6 million options over ordinary shares exercisable at $3.00 per share which were issued on 18 July 2008, with vesting subject to performance hurdles relating to growth in earnings per share and growth in dividends. Following the $1.00 reduction of share capital approved by shareholders at the General Meeting on 29 June 2011, the exercise price of the options was reduced to $2.00 per share, effective from 19 July 2011.

All options under the 2008 OP have either lapsed or been exercised and none of these 2008 options remain.

The options were not transferable and did not confer any right to participate in bonus issues or cash issues of ordinary shares. The option exercise price would have been adjusted for discounted cash issues, and the number of shares issued on exercise of an option would have been adjusted for bonus issues of shares. The options did not carry voting or dividend rights and were not listed for quotation on ASX.

Two million options were exercisable subject to certain performance conditions not earlier than 1 March 2011; two million options were exercisable subject to certain performance conditions not earlier than 1 March 2012; and two million options were exercisable subject to certain performance conditions not earlier than 1 March 2013.

The earnings per share ("EPS") performance hurdle had a starting point of 27 cents per ordinary share on 31 December 2007 and the dividend per share ("DPS") performance hurdle had a starting point of 9 cents per ordinary share on 31 December 2007, with growth measured on calendar year performance.

For all options to vest, the Company's performance must have met a minimum 10% cumulative average growth rate ("CAGR") in EPS over the 3 year vesting period for half of each tranche to vest, and must have met a minimum 10% CAGR in dividends paid over 2 out of the 4 year vesting period for the other half of each tranche to vest. For half of the options to vest, the Company's performance must have met a minimum 5% CAGR in EPS over the 3 year vesting period for one quarter of each tranche to vest, and must have met a minimum 5% CAGR in dividends paid over 2 out of the 4 year vesting period for another quarter of each tranche to have vested. Below 5% CAGR in either DPS or in EPS, no options would vest, with a pro-rata straight line vesting scale between 5% and 10% CAGR for each performance condition.

The effect of the performance hurdles on the potential vesting of the options can be illustrated as follows:

| **Number of Options able to Vest if:** | **Cumulative Annual Growth Rate ("CAGR")** | | | | |
|---|---|---|---|---|---|
| | **< 5%** | **5%** | **5% - 10%** | **= or > 10%** | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 1st Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 2nd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 3rd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |

\# *Subject to '2 out of 4 years' test*
* *A pro rata straight line vesting scale applies.*

All the options were exercisable no later than 1 March 2015. In the event of termination without cause, Mr. Burke could have exercised the options that had already vested or that vested during the following 12 month period, or he could have exercised vested options within 7 days of cessation of employment in the event of termination for cause.

During the prior year all of the remaining options under Mr. Burke's 2008 Option Plan were exercised or lapsed and no options remained at 30 June 2013. 603,863 third tranche EPS options vested and 396,137 third tranche EPS options lapsed during the prior year, the second tranche DPS options were retested in 2013 resulting in 1,000,000 DPS options vesting in March 2013, with the 1,000,000 third tranche DPS options also vesting in March 2013.

The terms of the grant of the options provided that should the Board determine that Mr. Burke had entered into a hedging transaction or other transaction having the effect of limiting or eliminating the economic risk associated with the options as a result of the DPS and EPS growth vesting hurdles to which they were subject, the options would have expired.

On 21 February 2013 Mr. Burke exercised 2,250,036 first and second tranche vested options into ordinary shares at $2.00 per share, and on 1 March 2013 Mr. Burke exercised the remaining 2,603,863 second and third tranche vested options, also at $2.00 per share. The value at exercise date of the options exercised by Mr. Burke during the 2013 year, based on the original valuation amounts, was $1,307,772. Accordingly all options under the 2008 OP have either lapsed or been exercised and none of these 2008 options remain.

***(iii) 2012 Option Plan for CEO ("2012 OP")***

The extension in October 2012 of the employment contract of Mr. Graham Burke, an Executive Director KMP, to December 2017 included a proposed grant of up to 4.5 million options over ordinary shares. The resulting 2012 OP is similar in design to the 2008 OP and was approved by the Company's shareholders on 15 November 2012. The options were issued on 29 November 2012 with the options being exercisable at $3.76 per share, with vesting subject to performance hurdles relating to growth in earnings per share and growth in dividends. Following the $0.25 per share reduction of share capital approved by shareholders at the Annual General Meeting on 29 November 2013, the exercise price of the options was reduced to $3.51 per share, effective from 31 December 2013.

The options are not transferable and do not confer any right to participate in bonus issues or cash issues of ordinary shares. The option exercise price is adjusted for discounted cash issues, and the number of shares issued on exercise of an option is adjusted for bonus issues of shares. The options do not carry voting or dividend rights and are not listed for quotation on ASX.

One and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2016; one and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2017; and one and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2018. Accordingly no options were eligible to vest during 2014 (2013: nil).

The EPS performance hurdle has a starting point of 34.4 cents per ordinary share, being diluted earnings per share before material items and discontinued operations for the year ended 30 June 2012, with growth measured on financial year performance, and the DPS performance hurdle has a starting point of 22 cents per ordinary share inclusive of franking credits, being the actual dividends paid in the 2012 calendar year, with growth measured on calendar year performance.

**D. EXECUTIVE KMP COMPENSATION (continued)**
**5. Variable Remuneration — Long Term Incentive ("LTI") (continued)**
**(b) Structure (continued)**

For all options to vest, the Company's performance must meet a minimum 8% cumulative average growth rate ("CAGR") in EPS over the 3 year vesting period for half of each tranche to vest, and must meet a minimum 8% CAGR in dividends paid over 2 out of the 4 year vesting period for the other half of each tranche to vest. For half of the options to vest, the Company's performance must meet a minimum 4% CAGR in EPS over the 3 year vesting period for one quarter of each tranche to vest, and must meet a minimum 4% CAGR in dividends paid over 2 out of the 4 year vesting period for another quarter of each tranche to vest. Below 4% CAGR in either DPS or in EPS, no options vest, with a pro-rata straight line vesting scale between 4% and 8% CAGR for each performance condition.

The effect of the performance hurdles on the potential vesting of the options can be illustrated as follows:

| Number of Options able to Vest if: | Cumulative Annual Growth Rate ("CAGR") | | | | |
|---|---|---|---|---|---|
| | < 4% | 4% | 4% - 8% | = or > 8% | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 1st Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 2nd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 3rd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |

\# *Subject to '2 out of 4 years' test*
* *A pro rata straight line vesting scale applies.*

All the options are exercisable no later than 1 March 2019. In the unlikely event of the termination of Mr. Burke's contract for cause, Mr. Burke may exercise vested options within one month of cessation of employment and all unvested options will lapse. In the event of termination without cause prior to December 2017, including by way of redundancy, all option terms continue as if Mr. Burke's employment had not ceased and all options will continue to vest subject to the growth hurdles being met. If Mr. Burke voluntarily terminates his employment with the Company including by way of resignation or retirement, all options terms continue for 12 months as if Mr. Burke's employment had not ceased and on that date all remaining vested and unvested options shall lapse. If Mr. Burke dies or involuntarily terminates his employment with the Company including by way of early retirement due to ill health, permanent disablement or mental incapacity, the Company retains the right to allow all option terms to continue as if Mr. Burke's employment had not ceased and all options will continue to vest subject to the growth hurdles being met.

The terms of the grant of the options provide that should the Board determine that Mr. Burke has entered into a hedging transaction or other transaction having the effect of limiting or eliminating the economic risk associated with the options as a result of the DPS and EPS growth vesting hurdles to which they are subject, the options will expire.

The fair value of each option estimated at date of grant on 29 November 2012 was $0.73, $0.74 and $0.75 for Tranches 1, 2 and 3 respectively. The notional adjusted equity value of the option allotment and the percentage of Mr Burke's total remuneration are detailed on pages 13 and 14 of this Report.

**6. Other benefits**

The Group has other compensation arrangements with some Executive KMP such as travel and entertainment reimbursement for business only purposes and either Company maintained vehicles, vehicle leases or car allowances as part of their remuneration packages. In addition the payment of superannuation or retirement benefit amounts within prescribed statutory limits are made, including various ancillary insurance covers. Where relevant, the grossed up taxable value of these benefits have been included as a non-monetary benefit, with the details of the value of these benefits set out on pages 13 and 14 of this Report.

With the appointment of Ms. J.E. Raffe as Finance Director of the Company in May 2012, Ms. Raffe's proposed ESP allocation was delayed from the June ESP allotment to KMP, granted at $3.14, to 29 November 2012 to allow for shareholder approval at the Company's 2012 annual general meeting, following which the ESP shares were issued at $3.78. The Company agreed to compensate Ms. Raffe with an additional bonus at the time of her future sale of these ESP shares for the additional value, if any, foregone by the deferred grant date.

This potential bonus payment to Ms. Raffe represents a cash-settled share-based payment estimated to be a maximum of $275,439, to be re-assessed at each financial year for changes in expected probability of payment. The fair value of this additional bonus amount was estimated on the basis of the estimated after-tax impact of $0.64 per share, being the difference between $3.78 and $3.14, and is accrued for over the 5 years from date of grant, being $71,920 for the 2014 financial year (2013: $42,167).

**E. EMPLOYMENT CONTRACTS**

Compensation and other terms of employment for many of the Group's Executive KMP and Non-KMP Executives are formalised in service agreements.

The main terms of all major employment contracts and bonus payments are reviewed by the Remuneration Committee. The major provisions of the service agreements of these Group officers relating to compensation are as set out below.

**1. Executive Director KMP**

Both Mr. Graham Burke and Mr. Robert Kirby, the Company's Executive Director KMP, have signed agreements with the Company setting out the principal terms and remuneration arrangements agreed with the Company's Remuneration Committee.

These terms include a base salary, CPI adjusted, superannuation and car allowance, and an annual capped incentive performance bonus is payable for the Company achieving certain EPS and CFROI targets. In addition both Mr. Burke and Mr. Kirby may seek a potential loan from the Company of up to $2 million on terms and conditions to be agreed by the Remuneration Committee of the Company.

Mr. Graham Burke also has a service contract with the Company which expires on 1 December 2017. In addition to the terms outlined above, the contract provides for the granting of four and a half million options over ordinary shares with appropriate exercise hurdles, which options were issued on 29 November 2012. Other than a global twelve month non-compete clause, the contract does not provide for pre-determined compensation in the event of termination.

**E. EMPLOYMENT CONTRACTS (continued)**
**2. Executive Committee KMP**

Messrs. D. Kindlen, C.J. Kirby, S.T. Phillipson and Ms. J.E. Raffe have ongoing employment agreements with the Company with no fixed expiry dates. In addition to base salary and superannuation, and a Company motor vehicle provided to Ms. Raffe and a car allowance provided to Mr. C.J. Kirby, all Executive Committee KMP are eligible to be paid an annual performance bonus. All Executive Committee KMP have STI performance bonus arrangements similar to VRL's Executive Director KMP based on CFROI and EPS metrics, as well as a discretionary performance bonus based on annually set personal performance criteria.

Payment for termination without cause under these employment contracts for Executive Committee KMP is equal to twelve months of salary and reflects the post employment restraints applicable to these Executive Committee KMP under their relevant employment contracts. The Group may terminate an employment contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the KMP is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause any unexercisable LTI plan shares are immediately forfeited and all remaining loans over such LTI shares must be repaid within 6 months of termination.

**F. KMP SHARE AND OPTION HOLDINGS**
**1. Ordinary Shares Held by KMP in Village Roadshow Limited (number)**

2014

| Name | Balance at the start of the year | Granted as remuneration [1] | On exercise of options | Net change other | Balance at the end of the year |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Robert G. Kirby[2] | 71,166,999 | - | - | (2,603,863) | 68,563,136 |
| Graham W. Burke[2] | 71,166,999 | - | - | (2,603,863) | 68,563,136 |
| John R. Kirby[2] | 71,166,999 | - | - | (2,603,863) | 68,563,136 |
| David J. Evans | 111,971 | - | - | - | 111,971 |
| Peter D. Jonson | 85,464 | 5,019 | - | - | 90,483 |
| D. Barry Reardon | 28,552 | - | - | - | 28,552 |
| Peter M. Harvie | 42,900 | - | 64,350 | - | 107,250 |
| Robert Le Tet | 84,564 | 19,640 | - | - | 104,204 |
| Tim Antonie | 20,714 | 1,771 | - | - | 22,485 |
| **Executives** | | | | | |
| Julie E. Raffe | - | - | - | - | - |
| Clark J. Kirby | 2,500 | - | - | - | 2,500 |
| Simon T. Phillipson | 200,000 | - | - | - | 200,000 |
| David Kindlen | 23,025 | - | - | - | 23,025 |

2013

| Name | Balance at the start of the year | Granted as remuneration [1] | On exercise of options | Net change other | Balance at the end of the year |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Robert G. Kirby[2] | 77,859,352 | - | - | (6,692,353) | 71,166,999 |
| Graham W. Burke[2] | 77,859,352 | - | 4,853,899 | (11,546,252) | 71,166,999 |
| John R. Kirby[2] | 77,859,352 | - | - | (6,692,353) | 71,166,999 |
| David J. Evans | 111,971 | - | - | - | 111,971 |
| Peter D. Jonson | 73,424 | 12,040 | - | - | 85,464 |
| D. Barry Reardon | 28,552 | - | - | - | 28,552 |
| Peter M. Harvie | 42,900 | - | - | - | 42,900 |
| Robert Le Tet | 50,847 | 33,717 | - | - | 84,564 |
| Tim Antonie | 12,747 | 7,967 | - | - | 20,714 |
| **Executives** | | | | | |
| Julie E. Raffe | - | - | - | - | - |
| Clark J. Kirby | 2,500 | - | - | - | 2,500 |
| Simon T. Phillipson | 200,000 | - | - | - | 200,000 |
| David Kindlen | 23,025 | - | - | - | 23,025 |

[1]Allotments under Directors' Share Plan from Directors Fees.

[2]Refer also to the Directors' Report disclosures for relevant interests of Directors, in relation to the 100% ownership of the immediate and ultimate parent entities of VRL.

**F. KMP SHARE AND OPTION HOLDINGS (continued)**

**2. 'In Substance Options' Held by KMP in Village Roadshow Limited (number)**

2014

| Name | Balance at the start of the year | Granted as remuneration | Options Exercised | Net change other | Balance at the end of the year | Vested and exercisable at the end of the year | Vested and unexercisable at the end of the year |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Peter M. Harvie [1] | 457,400 | - | (64,350) | - | 393,050 | 393,050 | - |
| **Executives** | | | | | | | |
| Julie E. Raffe | 1,000,000 | - | (297,640) | - | 702,360 | 262,360 | - |
| Simon T. Phillipson | 400,000 | - | (200,000) | - | 200,000 | - | - |
| Clark J. Kirby | 300,000 | - | - | - | 300,000 | - | - |
| David Kindlen | 250,000 | - | - | - | 250,000 | 150,000 | - |

2013

| Name | Balance at the start of the year | Granted as remuneration | Options Exercised | Net change other | Balance at the end of the year | Vested and exercisable at the end of the year | Vested and unexercisable at the end of the year |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Peter M. Harvie | 457,400 | - | - | - | 457,400 | 457,400 | - |
| **Executives** | | | | | | | |
| Julie E. Raffe [2] | 700,000 | 300,000 | - | - | 1,000,000 | 490,000 | - |
| Simon T. Phillipson | 400,000 | - | - | - | 400,000 | 200,000 | - |
| Clark J. Kirby | 300,000 | - | - | - | 300,000 | - | - |
| David Kindlen | 250,000 | - | - | - | 250,000 | 150,000 | - |

[1] Includes repayment of loan from dividends during the year.
[2] Includes allotment of In Substance Options on 29 November 2012.

**3. Options over Ordinary Shares Held by KMP in Village Roadshow Limited (number)**

2014

| Name | Balance at start of the year | Granted as remuneration | Options Exercised | Net Change Other | Balance at the end of the year | Vested and exercisable at the end of the year | Vested and unexercisable at the end of the year |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Graham W. Burke | 4,500,000 | - | - | - | 4,500,000 | - | - |

2013

| Name | Balance at start of the year | Granted as remuneration | Options Exercised | Net Change Other | Balance at the end of the year | Vested and exercisable at the end of the year | Vested and unexercisable at the end of the year |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Graham W. Burke | 5,250,036 | 4,500,000 | (4,853,899) | (396,137) | 4,500,000 | - | - |

**G. OTHER TRANSACTIONS WITH KMP**

Peninsula Cinemas Pty. Ltd., which are non-competing cinemas owned by an entity associated with Mr. R.G. Kirby, exhibit films supplied by the Roadshow Distributors Pty. Ltd. group ("RD group") on arm's length terms and conditions. The total amount paid to the RD group for the year ended 30 June 2014 was $358,685 (2013: $302,595). The entities in the RD group are wholly-owned subsidiaries of the VRL group.

The consolidated entity purchased wine from Yabby Lake International Pty. Ltd., an entity in which family members of Mr. R.G. Kirby have an economic interest. The total purchases were $305,999 for the year ended 30 June 2014 (2013: $289,764). The wine purchased was mainly for the Cinema Exhibition division's Gold Class and Europa cinemas and for Corporate functions. These transactions were carried out under arm's length terms and conditions.

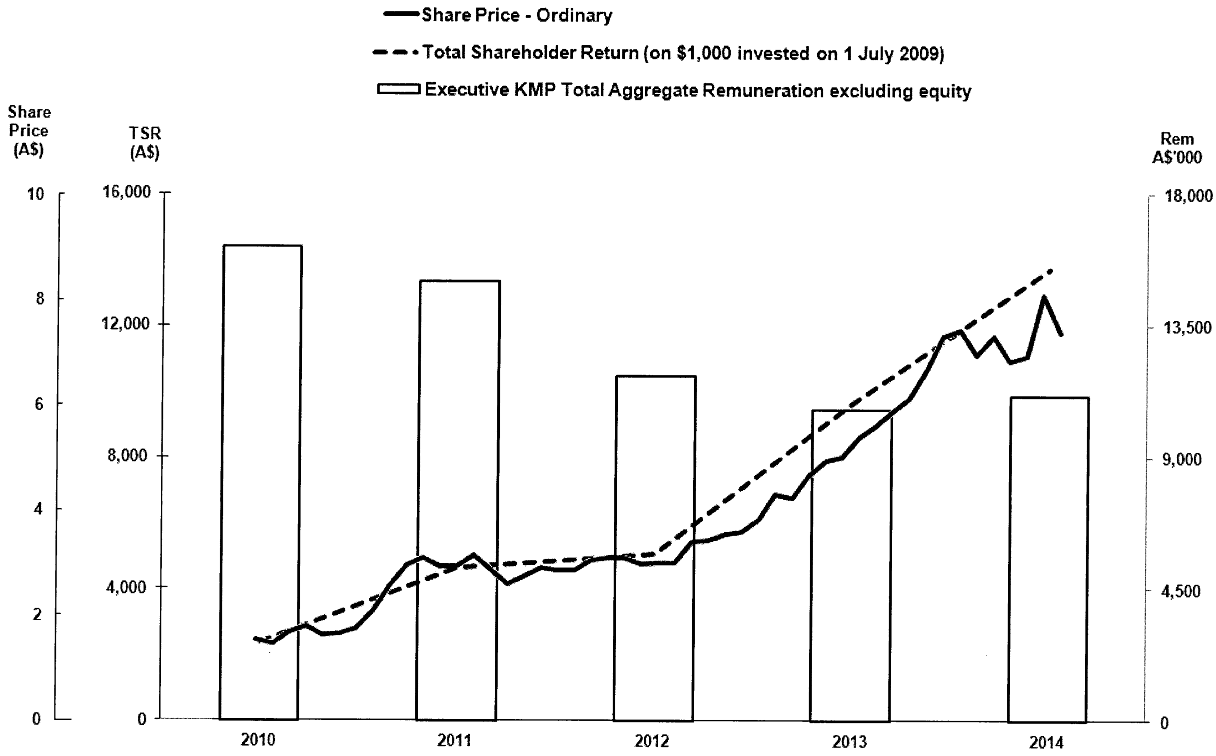
The consolidated entity purchased swimwear from Garyson Nominees Pty. Ltd., an entity associated with Mr. G.W. Burke. The total purchases were $50,338 for the year ended 30 June 2014 (2013: $53,989). The swimwear was purchased on an arm's length basis as merchandise for resale by the Theme Parks division.

The consolidated entity recharged occupancy costs and other net recharges for services provided and received, on an arm's length basis, to a number of entities associated (either individually or collectively) with Messrs. R.G. Kirby, J.R. Kirby and G.W. Burke. The total net amount charged for the various occupancy and other services in the year ended 30 June 2014 was $83,530 (2013: $77,411).

The consolidated entity reimbursed Carolyna Chase Pty. Ltd., an entity associated with Mr. J.R. Kirby, for accommodation and transport costs, on arm's length terms and conditions. The total amount reimbursed for the year ended 30 June 2014 was $Nil (2013: $4,370).

As at 30 June 2014, the total amount owing by the related parties detailed above, and included in current assets of the VRL group, was $16,142 (2013: $19,251), and the total amount owing by the VRL group to the related parties detailed above, and included in current liabilities, was $1,662 (2013: $8,235).

## H. COMPANY PERFORMANCE




*Total Shareholder Return and adjusted Ordinary share price month end closing price history – IRESS*

The above chart reflects the Total Shareholder Return ("TSR") of the Company for the current reporting period and in each of the four preceding years. It is based on the investment of $1,000 in ordinary shares on 1 July 2009 and demonstrates the impact on shareholders of having invested in ordinary shares over that five year time frame. The VRL share price performance and payment of dividends and capital returns to shareholders have had a significantly positive effect on TSR over the last five years.

Overlaid on the TSR and share price data is the total aggregate annual remuneration, including STI bonuses, of the Executive Director KMP and Executive Committee KMP. Excluded from the total aggregate remuneration is the notional value of share based payments as described above and termination and retirement benefits of departing relevant Executive KMP. This total aggregate annual remuneration on the same basis has also been shown for comparative purposes for each of the four preceding years for all Executive Director KMP and Executive Committee KMP in that year.

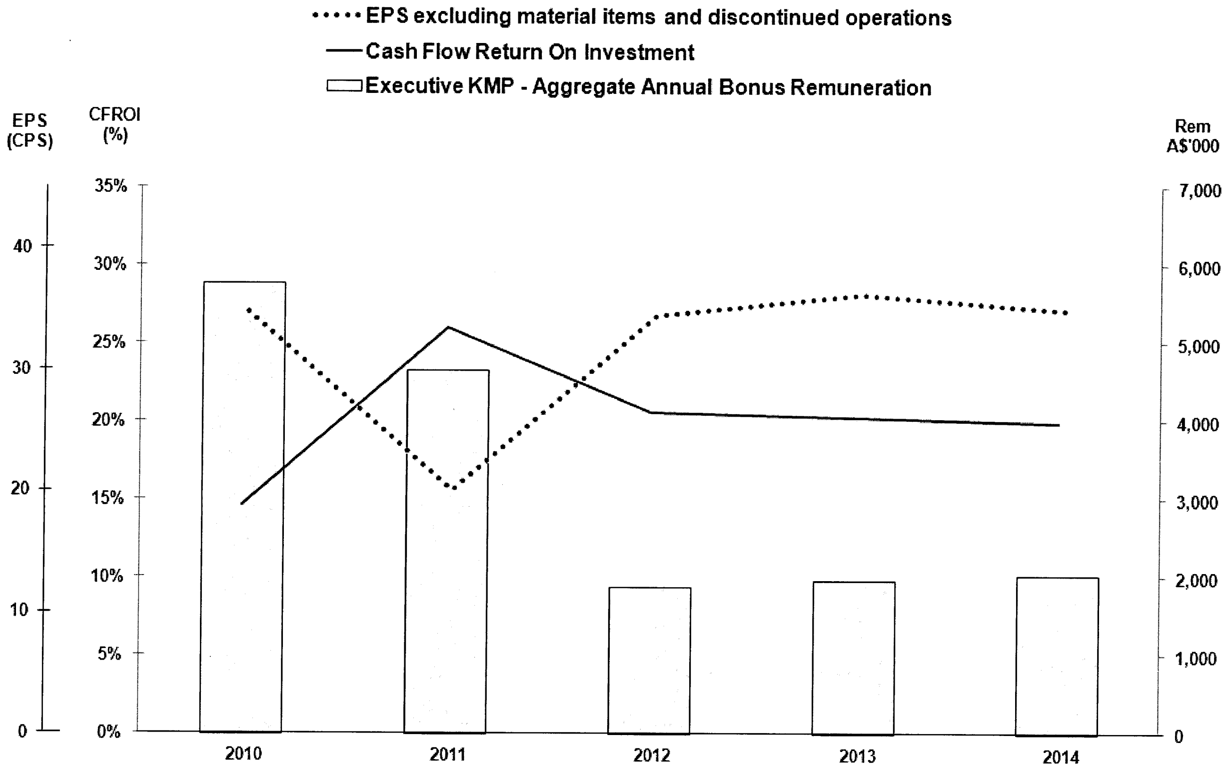
It is noted that the change in total remuneration has been positively impacted by the changing size and composition of the pool of relevant Executive KMP over that five year period. In the 2013 and 2014 financial years there were 6 Executive KMP in total compared to 9 relevant Executive KMP in 2010, as the Company has reduced the number of senior executives over this period. In addition the number of Executive KMP eligible for a STI bonus has decreased and caps on maximum STI bonus payments were introduced over this period.

The changes to the Company's corporate cost structure and to Executive Director KMP remuneration in 2011 and 2012 are reflected in the chart above which shows aggregate annual remuneration for Executive KMP excluding share based payments having significantly reduced over the five year period ended 30 June 2014.

Overlaid on the above chart is the share price movement of the Company's ordinary shares over the five years to 30 June 2014, historically adjusted downwards for returns of capital and special dividend payments over the period. The robust improvement in the Company's share price over this five year period is clearly evident from the chart above.

The above chart shows that aggregate relevant Executive KMP remuneration has decreased significantly over recent years whilst the Company's share price performance and TSR have significantly improved.

H. COMPANY PERFORMANCE (continued)




The STI bonus amounts for relevant Executive KMP members shown in the above chart represent the STI amounts accrued for the year to which the payment relates. The chart reflects the total aggregate annual STI bonus remuneration of the Executive Director KMP and Executive Committee KMP for the 2014 financial year and each of the four preceding years for KPIs that are directly linked to the financial performance of the Group. The STI bonus amounts shown in the chart above have been normalised where applicable to exclude discretionary STI bonus amounts for the achievement of individual, personal KPIs of relevant Executive KMP, so that the STI bonus payments displayed in the chart above are only those elements that relate to Group's financial performance benchmarks for the relevant year.

The calculation of annual bonuses shown for the relevant Executive KMP is divided into two components: half is driven by Cash Flow Return on Investment ("CFROI") and the other half is determined by Earnings Per Share ("EPS") performance. The two components together derive the STI bonus amounts shown above for the Executive Director KMP and Executive Committee KMP over the five year period.

For the purposes of calculating the above STI bonuses, the CFROI used relates to normalised EBITDA as a percentage of capital employed, and capital employed is represented by total shareholders' capital plus net debt. Bonuses are calculated based on the ratio from year to year and are on a sliding scale between 10% and 20%.

The chart also shows the solid performance of the Company measured in EPS, shown in cents per share, over the same five year period – this is the EPS, excluding material items and discontinued operations, as reported for the year in relation to which the remuneration was paid, unadjusted for any subsequent changes (primarily relating to re-statements due to discontinued operations) for each of the relevant five years, measured against the weighted average ordinary and preference shares on issue for each year as applicable.

In the 2011 year the Company disposed of its Radio and Attractions divisions and the earnings of those divisions have been excluded from the EPS calculations in that year. It should also be noted that, up until the year ended 30 June 2011, the EPS figure used in the above graph is total EPS, which was calculated based on the ordinary and preference shares on issue. For the 2012 to 2014 years inclusive, as a result of the remaining preference shares being converted to ordinary shares in the 2011 financial year, the EPS used is calculated based on ordinary shares only.

The reduction in the quantum of STI bonus payments over recent years is mostly attributable to the changing size and composition of the membership of the Executive Committee and, from the 2012 financial year, to cessation of bonus entitlements for the Executive Chairman and Executive Deputy Chairman and the capping of the CEO's STI bonus.

Further details on the structure of the STI bonus arrangements are set out in section D.4 of this Report.

The above chart demonstrates the solid financial performance of the Company on both CFROI and EPS measures over the current year and the previous four years, whilst nevertheless over the same period the aggregate STI bonus remuneration paid to the relevant Executive KMP based on the EPS and CFROI metrics has been substantially curtailed despite the successful substantive achievement of CFROI and EPS annual KPI targets by the Executive KMP.

The combination of the reduction in the number of relevant Executive KMP and the changed remuneration arrangements for the remaining Executive KMP over the 5 year period has brought significant remuneration savings to the Company. Accordingly the Company considers that both the level and quantum of remuneration and the nature of the components of STI and LTI payments for Executive KMP are appropriate. In addition the STI and LTI 'at risk' components of Executive KMP remuneration are directly linked to specific financial performance metrics of the Group and reflect the alignment of the interests of the relevant Executive KMP with those of shareholders.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
For the year ended 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Income | | | |
| Revenues | 2(a) | 939,170 | 908,475 |
| Other income | 2(b) | 26,612 | 28,476 |
| Expenses excluding finance costs | 2(d) | (873,535) | (837,644) |
| Finance costs | 2(e) | (33,126) | (32,548) |
| Share of profits (losses) of associates | 2(c) | 8,480 | 10,344 |
| **Profit from continuing operations before income tax expense** | | 67,601 | 77,103 |
| Income tax expense | 4 | (20,989) | (26,019) |
| Profit after tax from continuing operations | | 46,612 | 51,084 |
| **Discontinued operations** | | | |
| Profit after tax | | - | - |
| **Net profit for the period** | | 46,612 | 51,084 |
| Profit for the period is attributable to: | | | |
| Non-controlling interest | | 843 | 153 |
| Owners of the parent | | 45,769 | 50,931 |
| | | 46,612 | 51,084 |
| **Other comprehensive income (expense)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges | 20 | (2,643) | 1,914 |
| Foreign currency translation | 20 | 1,896 | 9,214 |
| **Other comprehensive income (expense) for the period after tax** | | (747) | 11,128 |
| **Total comprehensive income for the period** | | 45,865 | 62,212 |
| Total comprehensive income for the period is attributable to: | | | |
| Non-controlling interest | | 843 | 153 |
| Owners of the parent | | 45,022 | 62,059 |
| | | 45,865 | 62,212 |
| **Earnings per share (cents per share)** | | | |
| For profit for the year attributable to ordinary equity holders of Village Roadshow Limited: | | | |
| Basic earnings per share | 3 | 28.7 cents | 32.7 cents |
| Diluted earnings per share | 3 | 28.3 cents | 32.3 cents |
| For profit from continuing operations for the year attributable to ordinary equity holders of Village Roadshow Limited: | | | |
| Basic earnings per share | 3 | 28.7 cents | 32.7 cents |
| Diluted earnings per share | 3 | 28.3 cents | 32.3 cents |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
As at 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 6(a) | 130,382 | 146,909 |
| Trade and other receivables | 7 | 107,736 | 112,565 |
| Inventories | 8 | 17,805 | 16,088 |
| Current tax assets | | 1 | 1 |
| Film distribution royalties | 10(b) | 44,233 | 49,703 |
| Derivatives | 30(e) | 254 | 4,982 |
| Other | 10(a) | 20,246 | 16,372 |
| **Total current assets** | | 320,657 | 346,620 |
| **Non-Current Assets** | | | |
| Trade and other receivables | 7 | 14,071 | 15,616 |
| Goodwill and other intangible assets | 9 | 319,234 | 315,554 |
| Investments in associates | 11 | 12,125 | 25,125 |
| Available-for-sale investments | | 483 | 520 |
| Property, plant & equipment | 14 | 656,893 | 638,896 |
| Deferred tax assets | 4(c) | 913 | 1,013 |
| Film distribution royalties | 10(b) | 86,662 | 99,128 |
| Derivatives | 30(e) | - | 53 |
| Other | 10(a) | 1,856 | 1,987 |
| **Total non-current assets** | | 1,092,237 | 1,097,892 |
| **Total assets** | | 1,412,894 | 1,444,512 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 15 | 195,958 | 240,941 |
| Interest bearing loans and borrowings | 16 | 23,106 | 35,595 |
| Income tax payable | | 8,573 | 11,785 |
| Provisions | 17 | 60,685 | 32,308 |
| Derivatives | 30(e) | 1,416 | 6,165 |
| Other | 18 | 37,643 | 41,920 |
| **Total current liabilities** | | 327,381 | 368,714 |
| **Non-Current Liabilities** | | | |
| Trade and other payables | 15 | 46,197 | 51,232 |
| Interest bearing loans and borrowings | 16 | 457,762 | 382,892 |
| Deferred tax liabilities | 4(c) | 43,796 | 48,344 |
| Provisions | 17 | 13,668 | 18,157 |
| Derivatives | 30(e) | 541 | 1,423 |
| Other | 18 | 2,239 | 1,672 |
| **Total non-current liabilities** | | 564,203 | 503,720 |
| **Total liabilities** | | 891,584 | 872,434 |
| **Net assets** | | 521,310 | 572,078 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent: | | | |
| Contributed equity | 19 | 219,191 | 234,345 |
| Reserves | 20 | 96,750 | 95,953 |
| Retained earnings | 20 | 190,504 | 230,862 |
| Parent interests | | 506,445 | 561,160 |
| Non-controlling interest | 21 | 14,865 | 10,918 |
| **Total equity** | | 521,310 | 572,078 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
For the year ended 30 June 2014

| | Notes | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 1,035,629 | 1,010,895 |
| Payments to suppliers and employees | | (908,094) | (840,977) |
| Dividends and distributions received | | 20,865 | 7,654 |
| Interest and other items of similar nature received | | 4,665 | 7,733 |
| Finance costs | | (29,487) | (33,083) |
| Income taxes paid | | (26,865) | (1,483) |
| **Net cash flows from (used in) operating activities** | 6(b) | 96,713 | 150,739 |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant & equipment | | (135,784) | (131,118) |
| Purchases of software and other intangibles | | (17,060) | (13,928) |
| Proceeds from sale of property, plant & equipment | | 125 | 208 |
| Purchase of equity investments | | (9,284) | (7,122) |
| Proceeds on sale of investments / businesses | | 43,524 | 2,006 |
| Loans to (or repaid to) other entities | | - | (400) |
| Loans from (or repaid by) other entities | | 4,534 | 13,278 |
| **Net cash flows from (used in) investing activities** | | (113,945) | (137,076) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 126,770 | 24,589 |
| Proceeds from issues of shares | | 187 | 9,930 |
| Repayment of borrowings / derivatives | | (45,191) | (59,561) |
| Dividends and distributions paid | | (62,202) | (36,055) |
| Capital reduction | | (19,139) | - |
| **Net cash flows from (used in) financing activities** | | 425 | (61,097) |
| | | | |
| **Net (decrease) in cash and cash equivalents** | | (16,807) | (47,434) |
| Cash and cash equivalents at beginning of year | | 146,909 | 193,574 |
| Effects of exchange rate changes on cash | | 280 | 769 |
| **Cash and cash equivalents at end of year** | 6(a) | 130,382 | 146,909 |
| | | | |
| **Total cash classified as:** | | | |
| Continuing operations | | 130,382 | 146,909 |
| **Total cash and cash equivalents at end of the period** | | 130,382 | 146,909 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
For the year ended 30 June 2014

| | ATTRIBUTABLE TO EQUITY HOLDERS OF VILLAGE ROADSHOW LIMITED | | | | | |
|---|---|---|---|---|---|---|
| | **CONTRIBUTED EQUITY (NOTE 19) $'000** | **RETAINED EARNINGS (NOTE 20) $'000** | **RESERVES (NOTE 20) $'000** | **TOTAL $'000** | **NON-CONTROLLING INTEREST (NOTE 21) $'000** | **TOTAL EQUITY $'000** |
| ***Balances at 1 July 2013*** | **234,345** | **230,862** | **95,953** | **561,160** | **10,918** | **572,078** |
| Profit for the year | - | 45,769 | - | 45,769 | 843 | 46,612 |
| Other comprehensive income (net) | - | - | (747) | (747) | - | (747) |
| **Total comprehensive income (expense) for the period** | - | 45,769 | (747) | 45,022 | 843 | 45,865 |
| Share-based payment movements | 3,799 | - | 1,544 | 5,343 | - | 5,343 |
| Issue of shares under Directors' Share Plan from Directors' fees | 186 | - | - | 186 | - | 186 |
| Reduction of share capital | (19,139) | - | - | (19,139) | - | (19,139) |
| Restructuring of equity in partly-owned controlled entity | - | - | - | - | 3,346 | 3,346 |
| Equity dividends | - | (86,127) | - | (86,127) | - | (86,127) |
| Other changes in equity | - | - | - | - | (242) | (242) |
| ***At 30 June 2014*** | **219,191** | **190,504** | **96,750** | **506,445** | **14,865** | **521,310** |
| | | | | | | |
| ***Balances at 1 July 2012*** | **222,853** | **215,986** | **83,972** | **522,811** | **-** | **522,811** |
| Profit for the year | - | 50,931 | - | 50,931 | 153 | 51,084 |
| Other comprehensive income (net) | - | - | 11,128 | 11,128 | - | 11,128 |
| **Total comprehensive income (expense) for the period** | - | 50,931 | 11,128 | 62,059 | 153 | 62,212 |
| Share-based payment movements | 1,563 | - | 853 | 2,416 | - | 2,416 |
| Issue of shares under Directors' Share Plan from Directors' fees | 220 | - | - | 220 | - | 220 |
| Issue of shares from exercise of options | 9,709 | - | - | 9,709 | - | 9,709 |
| Acquisition of non-controlling interest | - | - | - | - | 10,765 | 10,765 |
| Equity dividends | - | (36,055) | - | (36,055) | - | (36,055) |
| ***At 30 June 2013*** | **234,345** | **230,862** | **95,953** | **561,160** | **10,918** | **572,078** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended 30 June 2014

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report of Village Roadshow Limited ("the Company" or "VRL") for the year ended 30 June 2014 was authorised for issue on 19 September 2014, in accordance with a resolution of the Directors. VRL is a for-profit entity incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange. The principal activities of the Company and its subsidiaries are described in Note 1(c)(xxix).

**(a) Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivatives and any available for sale investments that are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless stated otherwise, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

The presentation and classification of comparative items in the financial report have been adjusted where appropriate to ensure that the disclosures are consistent with the current period.

**(b) Statement of compliance and new accounting standards and interpretations**

**(i)** The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

**(ii)** The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations in the current financial year:

- AASB 10: *Consolidated Financial Statements*.
- AASB 11: *Joint Arrangements.*
- AASB 12: *Disclosure of Interests in Other Entities*.
- AASB 13: *Fair Value Measurement.*
- AASB 119: *Employee Benefits*.
- AASB 2012-2: *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Finanical Liabilities*
- AASB 2011-4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*
- AASB 2012-9: *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039*

The Group has early adopted AASB 2013-3: *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets.*

Adoption of these amended Accounting Standards did not have any impact on the financial position or performance of the Group.

**(iii)** A number of standards and interpretations have been issued by the Australian Accounting Standards Board ("AASB") or the International Accounting Standards Board ("IASB") prior to 30 June 2014, which are effective from a future date. Further details are as follows:

- AASB 9: *Financial Instruments*: AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project by the International Accounting Standards Board ("IASB") to replace IAS 39: *Financial Instruments: Recognition and Measurement* (AASB 139: *Financial Instruments: Recognition and Measurement*). Application date of this standard is 1 January 2018, and application date for the Group is 1 July 2018. The impact of adoption of this standard on the Group's financial results has not yet been assessed.

- AASB 1031: *Materiality*: The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. Application date of this standard is 1 January 2014, and application date for the Group is 1 July 2014. This standard has no financial impact on the Group as it relates to disclosures only.

- IFRS 15: *Revenue from Contracts with Customers*: The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application date of this standard is 1 January 2017, and application date for the Group is 1 July 2017. The impact of adoption of this standard on the Group's financial results has not yet been assessed.

- The impacts of all other standards and amendments to accounting standards that have been issued by the AASB but are not yet effective for the period ending 30 June 2014, have been determined as having no significant impact on the financial results of the Group.

**(c) Summary of significant accounting policies**

**(i) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Village Roadshow Limited and its subsidiaries ("the Group", "VRL group" or "consolidated entity") as at 30 June each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial report, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

**(ii) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

**(iii) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(a) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

*(b) Rendering of services*

Revenue from the rendering of services is recognised when control of a right to be compensated for the services has been attained by reference to the stage of completion. Where contracts span more than one reporting period, the stage of completion is based on an assessment of the value of work performed at that date.

*(c) Interest income*

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*(d) Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

*(e) Unearned income*

Income relating to future periods is initially recorded as unearned income, and is then recognised as revenue over the relevant periods of admission or rendering of other services.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(iv) Borrowing costs**

Borrowing costs are expensed as incurred, except where they are directly attributable to qualifying assets. Where directly attributable to a qualifying asset, borrowing costs are capitalised as part of the cost of that asset.

**(v) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in the profit or loss as an integral part of the total lease expense.

**(vi) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(vii) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. Collectability of trade receivables is reviewed on an ongoing basis. An impairment provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. Objective evidence takes into account financial difficulties of the debtor, default payments or if there are debts outstanding longer than agreed terms.

**(viii) Inventories**

Inventories are valued at the lower of cost and net realisable value and are accounted for on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(ix) Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps, caps and collars (floors and caps) to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as effective cash flow hedges, are taken directly to net profit or loss for the year. The fair values of forward currency contracts and interest rate swaps, caps and collars are determined by reference to valuations provided by the relevant counterparties, which are reviewed for reasonableness by the Group using discounted cash flow models.

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge exposure to variability in cash flows that are attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. Where a hedge meets the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

**(x) Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

*(a) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

*(b) Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

*(c) Available-for-sale investments at fair value*

If there is objective evidence that an available-for-sale investment at fair value is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(xi) Foreign currency translation**

Both the functional and presentation currency of the Company and the majority of its Australian subsidiaries is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to other comprehensive income until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of subsidiaries with functional currencies other than Australian dollars are translated into the presentation currency of the Company at the rate of exchange ruling at the reporting date and their profit or loss items are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

**(xii) Discontinued operations and assets held for sale**

A discontinued operation is a component of an entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs of disposal if the carrying amount will be recovered principally through a sale transaction. These assets are not depreciated or amortised following classification as held for sale. For an asset or disposal group to be classified as held for sale, it must be available for sale in its present condition and its sale must be highly probable.

**(xiii) Investments in associates**

The Group's investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint arrangement.

Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity. Adjustments are made to bring into line any dissimilar reporting dates or accounting policies that may exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

**(xiv) Interests in joint arrangements**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A joint operation involves the use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interests in joint venture entities by using the equity method of accounting (refer Note 1(c)(xiii)). The Group recognises its interest in joint operations by recognising its share of the assets that the operations control and the liabilities incurred. The Group also recognises its share of the expenses incurred and the income that the operations earn from the sale of goods or services.

**(xv) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in other comprehensive income are recognised in other comprehensive income, and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Tax Consolidation*

For Australian income tax purposes, various entities in the Group have formed a Tax Consolidated group, and have executed a combined Tax Sharing and Tax Funding Agreement ("TSA") in order to allocate income tax expense to the relevant wholly-owned entities predominantly on a stand-alone basis. In addition, the TSA provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations to the Australian Taxation Office.

*Tax effect accounting by members of the tax consolidated group*

Under the terms of the TSA, wholly owned entities compensate the head entity for any current tax payable assumed and are compensated for any current tax receivable, and are also compensated for deferred tax assets relating to unused tax losses or unused tax credits that are recognised on transfer to the parent entity under tax consolidation legislation. The funding amounts are determined at the end of each six month reporting period by reference to the amounts recognised in the wholly-owned entities financial statements determined predominantly on a stand alone basis. Amounts receivable or payable under the TSA are included with other amounts receivable or payable between entities in the Group.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(xvi) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(xvii) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings and improvements are depreciated over the lesser of any relevant lease term and 40 years, using the straight line method.
- Plant, equipment and vehicles are depreciated over periods of between three and 25 years using the straight line or reducing balance method.

Pooled animals are classified as part of property, plant and equipment and are not depreciated.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end, and when acquired as part of a business combination.

*Impairment*

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

*De-recognition and disposal*

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is de-recognised.

**(xviii) Investments and other financial assets**

Financial assets in the scope of AASB 139: *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*(a) Financial assets at fair value through profit or loss*

In accordance with AASB 7: *Financial Instruments: Disclosures*, financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss. It should be noted that even though these assets are classified as held for trading (in accordance with AASB 139 terminology), the Group is not involved in speculative activities and only uses derivatives for risk management purposes.

*(b) Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process. The Group does not currently have held-to-maturity investments.

*(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired.

*(d) Available-for-sale investments*

Available-for-sale investments are those derivative financial assets that are designated as available-for-sale or not classified as any of the three preceding categories. After initial recognition, available-for-sale investments are either carried at cost less any accumulated impairment losses, or are measured at fair value with gains or losses being recognised in other comprehensive income until the investments are de-recognised or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(xix) Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the fair value of the consideration transferred over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8: *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**(xx) Intangible assets**

Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the nature of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

**Brand Names**
*Useful lives:* Indefinite
*Amortisation method used:* No amortisation
*Internally generated or acquired:* Acquired
*Impairment testing:* Annually and more frequently when an indication of impairment exists.

**Film Distribution Rights**
*Useful lives:* Finite
*Amortisation method used:* Amortised over estimated useful lives which range from 1 to 25 years.
*Internally generated or acquired:* Acquired
*Impairment testing:* When an indication of impairment exists. The amortisation method and remaining useful life are reviewed at each financial year-end.

**Software and Other Intangibles**
*Useful lives*: Finite
*Amortisation method used:* Amortised over estimated useful lives which range from 2 to 25 years. The estimated useful life remaining is in the range of 2 - 19 years.
*Internally generated or acquired:* Acquired
*Impairment testing:* When an indication of impairment exists. The amortisation method and remaining useful life are reviewed at each financial year-end.

Assets that are classified as having an indefinite life are the brand names in the Theme Parks division. This conclusion has been based on the length of time that the brands have been in existence, and the fact that they have an established market presence.

**(xxi) Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing fair value less costs of disposal, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the nature of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Other than goodwill, a previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(xxii) Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid, and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(xxiii) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are de-recognised.

**(xxiv) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(xxv) Employee leave benefits**

*Wages, salaries, annual leave and sick leave*

Provision is made for wages and salaries, including non-monetary benefits, and annual leave in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. The value of the employee share incentive scheme is being charged as an employee benefits expense. Refer to Note 1(c)(xxvi) for the share-based payment transactions policy.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(xxvi) Share-based payment transactions**

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The plans currently in place to provide these benefits are the Company's Executive Share Plan and Loan Facility and the 2012 Option Plan for the Company's Chief Executive Officer, and ceasing in 2013, the 2008 Option Plan for the Company's Chief Executive Officer, which provide benefits to directors and senior executives. The grant of rights under the Executive Share Plan and Loan Facility are treated as "in substance options", even where the equity instrument is not an option.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using either the Monte Carlo, binomial or Black-Scholes models. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of VRL (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer Note 3).

Shares in the Group relating to the various employee share plans and which are subject to non-recourse loans are deducted from equity. Refer Note 25 for share-based payment disclosures relating to "in substance options".

**(xxvii) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the buyback of shares are shown in equity, net of tax, as part of the buyback cost.

**1 CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) Summary of significant accounting policies** (continued)

**(xxviii) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

When there are potential ordinary shares that are dilutive, diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(xxix) Segment reporting**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

Discrete financial information about each of these segments is reported to the executive management team on a monthly basis. These operating segments are then aggregated based on similar economic characteristics to form the following reportable segments:

| | |
|---|---|
| - Theme Parks | Theme park and water park operations |
| - Cinema Exhibition | Cinema exhibition operations |
| - Film Distribution | Film and DVD distribution operations |
| - Other | Other represents financial information which is not allocated to the reportable segments. |

A geographic region is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those segments operating in other economic environments. Revenue from geographic locations is attributed to geographic location based on the location of the customers.

The segment revenue that is disclosed to the chief operating decision maker in Note 29 is in accordance with IFRS. Inter-segment revenue applies the same revenue recognition principles as per Note (1)(c)(iii).

**(xxx) Financial guarantees**

The fair values of financial guarantee contracts as disclosed in Note 28 have been assessed using a probability weighted discounted cash flow approach. In order to estimate the fair value under this approach the following assumptions were made:

- Probability of Default: This represents the likelihood of the guaranteed party defaulting in the remaining guarantee period and is assessed based on historical default rates of companies rated by Standard & Poors. The probability of default ranges used for the years ended 30 June 2014 and 30 June 2013 were 19.5% to 25.8%.

- Recovery Rate: This represents the estimated proportion of the exposure that is expected to be recovered in the event of a default by the guaranteed party and is estimated based on the business of the guaranteed parties. The recovery rate ranges used for the years ended 30 June 2014 and 30 June 2013 were 40% to 60%.

The values of the financial guarantees over each future year of the guarantees' lives is discounted over the contractual term of the guarantees to reporting date to determine the fair values. The contractual term of the guarantees matches the underlying obligations to which they relate. The financial guarantee liabilities determined using this method are then amortised over the remaining contractual term of the guarantees.

**(xxxi) Film distribution royalties**

Film distribution royalties represent the consolidated entity's minimum guaranteed royalty commitments to licensors in return for the acquisition of distribution rights. The commitments can be for either the life of contract or part thereof. On entering into the agreement the commitments are brought to account in the statement of financial position as assets and liabilities (the latter in respect of any unpaid components).

Film distribution royalties are expensed in line with the exploitation of the distribution rights. At the time the distribution rights are first exploited, a forecast of the lifetime earnings and royalties is made and any impairment is immediately taken to profit or loss. The forecast royalties are then reviewed and revised over the commitment period to ensure the carrying amount is equal to the lesser of the expected future royalties to be generated or the balance of the minimum guaranteed royalties.

**(d) Significant accounting judgements, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on judgements, estimates and assumptions of future events. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**(i) Impairment of goodwill and intangibles with indefinite useful lives**

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 9.

**(ii) Share-based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, a Monte Carlo simulation technique or the Black-Scholes model, as appropriate, using the assumptions detailed in Note 25.

**(iii) Impairment of film distribution royalties**

The Group determines whether film distribution royalties are impaired at least at each reporting date. This requires an estimation of the recoverable amount of the film distribution royalties based on calculations of the discounted cash flows expected to be received in relation to the royalties.

**(iv) Income Taxes**

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due (refer to Note 22(a)(iv)). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

**(v) Impairment of non-financial assets other than goodwill and indefinite life intangibles**

The group assesses for impairment of assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger is identified, the recoverable amount of the asset is determined.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 2 | **REVENUE AND EXPENSES FROM CONTINUING OPERATIONS** | | |
| (a) | **Revenue** | | |
| | Sale of goods | 314,243 | 330,616 |
| | Rendering of services | 620,731 | 570,396 |
| | Finance revenue - other entities | 4,196 | 7,463 |
| | Total revenues | 939,170 | 908,475 |
| (b) | **Other Income** | | |
| | Management Fees from - | | |
| | Other entities | 6,462 | 3,305 |
| | Associates | 856 | 1,116 |
| | Net gains on disposal of investments (refer material items of income and expense in Reconciliation of Results contained in Directors' Report for 2013) | 251 | 6,842 |
| | Unearned revenue written back | 4,590 | 5,042 |
| | Commissions / fees received | 4,127 | 4,091 |
| | Other | 10,326 | 8,080 |
| | Total other income | 26,612 | 28,476 |
| (c) | **Share of net profits (losses) of associates accounted for using the equity method** | | |
| | Share of associates' net profits (losses) (refer Note 11) | 8,480 | 10,344 |
| (d) | **Expenses excluding finance costs** | | |
| | Employee expenses - | | |
| | Employee benefits | 16,662 | 15,938 |
| | Defined contribution superannuation expense | 14,616 | 13,317 |
| | Share-based payment expense | 1,544 | 895 |
| | Remuneration and other employee expenses | 186,124 | 179,285 |
| | Total employee expenses | 218,946 | 209,435 |
| | Cost of goods sold | 86,738 | 76,804 |
| | Occupancy expenses - | | |
| | Operating lease rental - minimum lease payments | 43,909 | 41,475 |
| | Operating lease rental - contingent rental payments | 3,334 | 4,788 |
| | Other occupancy expenses | 26,158 | 25,245 |
| | Total occupancy expenses | 73,401 | 71,508 |
| | Film hire and other film expenses | 224,032 | 215,931 |
| | Depreciation of - | | |
| | Buildings & improvements | 2,740 | 3,104 |
| | Plant, equipment & vehicles | 41,598 | 33,063 |
| | Amortisation of - | | |
| | Leasehold improvements | 11,360 | 9,799 |
| | Finance lease assets | 651 | 1,381 |
| | Deferred expenditure | 12 | 26 |
| | Software and other intangibles | 8,988 | 6,891 |
| | Total depreciation and amortisation | 65,349 | 54,264 |
| | Net loss on disposal of property, plant & equipment | 113 | 222 |
| | Net foreign currency (gains) losses | 546 | 2,108 |
| | Impairments, write-downs and provisions relating to non-current assets and onerous lease (refer material items of income and expense in Reconciliation of Results contained in Directors' Report) | 3,003 | 14,383 |
| | Management and services fees paid | 2,789 | 2,391 |
| | Insurance expenses | 5,113 | 4,902 |
| | Theme park operating expenses | 20,011 | 16,338 |
| | Repairs and maintenance | 15,078 | 13,209 |
| | Consulting fees | 8,098 | 7,905 |
| | Advertising and promotions | 102,958 | 104,802 |
| | Regulatory and licensing fees | 6,011 | 5,504 |
| | Telecommunications | 2,815 | 2,823 |
| | Legal settlement and expenses (refer material items of income and expense in Reconciliation of Results contained in Directors' Report) | 4,774 | - |
| | Other legal expenses | 1,595 | 1,851 |
| | Pre-opening costs | 5,468 | 1,969 |
| | General and administration expenses - | | |
| | Provision (reversal of provision) for doubtful debts | 52 | (23) |
| | Bad debts written off - other | 161 | 146 |
| | Other general and administration expenses | 26,484 | 31,172 |
| | Total general and administration expenses | 26,697 | 31,295 |
| | **Total expenses excluding finance costs** | 873,535 | 837,644 |
| (e) | **Finance costs** | | |
| | Total finance costs before fair value change on derivatives and finance restructuring costs | 30,260 | 35,185 |
| | Finance restructuring costs (refer material items of income and expense in Reconciliation of Results contained in Directors' Report) | 2,840 | - |
| | Fair value change on interest rate derivatives (refer material items of income and expense in Reconciliation of Results contained in Directors' Report) | 26 | (2,637) |
| | **Total finance costs** | 33,126 | 32,548 |

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
For the year ended 30 June 2014

## 3 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

| | | 2014 | 2013 |
|---|---|---|---|
| (a) | **Earnings per share:** | | |
| | Net profit attributable to ordinary equity holders of VRL | | |
| | Basic EPS | 28.7 cents | 32.7 cents |
| | Diluted EPS | 28.3 cents | 32.3 cents |
| | Net profit from continuing operations attributable to ordinary equity holders of VRL | | |
| | Basic EPS | 28.7 cents | 32.7 cents |
| | Diluted EPS | 28.3 cents | 32.3 cents |

**(b) The following reflects the income and share data used in the basic earnings per share computations:**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Net profit from continuing operations | 46,612 | 51,084 |
| Net profit attributable to non-controlling interest from continuing operations | (843) | (153) |
| Net profit attributable to ordinary equity holders of VRL (from continuing operations and in total) | 45,769 | 50,931 |

| | 2014 No. of Shares | 2013 No. of Shares |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 159,490,636 | 155,760,052 |
| Weighted average number of ordinary shares for diluted earnings per share[1] | 161,721,974 | 157,887,682 |

[1] The issued options were reviewed and determined to represent 2,231,338 potential ordinary shares as at 30 June 2014 (2013: 2,127,630 potential ordinary shares).

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Under Accounting Standard AASB 2: *Share-based Payment,* shares issued under the company's various share plans are required to be accounted for as options. Shares issued under these plans are referred to as 'in-substance options' and are included in ordinary shares for the purposes of the EPS calculation.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 4 | **INCOME TAX** | | |
| (a) | **Major components of income tax expense from continuing operations for the years ended 30 June 2014 and 2013 are:** | | |
| | **Statement of Comprehensive Income** | | |
| | *Current income tax* | | |
| | Current income tax expense | (24,252) | (16,007) |
| | Adjustments in respect of current income tax of prior years | (44) | (762) |
| | *Deferred income tax* | | |
| | Relating to origination and reversal of temporary differences | 4,448 | (10,470) |
| | Movements taken up in equity instead of income tax expense | (1,141) | 1,220 |
| | Income tax expense reported in statement of comprehensive income - continuing operations | (20,989) | (26,019) |
| (b) | **A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:** | | |
| | Net profit before income tax | 67,601 | 77,103 |
| | At the statutory income tax rate of 30% (2013: 30%) | (20,281) | (23,131) |
| | Adjustments in respect of current income tax of previous years | (44) | (762) |
| | Other assessable income | - | (1,290) |
| | Non-deductible expenses | (1,722) | (2,106) |
| | Net losses of overseas subsidiaries not brought to account | (1,167) | (1,567) |
| | After-tax equity accounted profits (losses) included in pre-tax profit | 2,544 | 3,281 |
| | Other | (319) | (444) |
| | Total income tax expense - continuing operations - at effective tax rate of 31.0% (2013: 33.7%) | (20,989) | (26,019) |

| | CONSOLIDATED STATEMENT OF FINANCIAL POSITION 2014 $'000 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION 2013 $'000 | CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2014 $'000 | CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2013 $'000 |
|---|---|---|---|---|
| **4 INCOME TAX** (continued) | | | | |
| **(c) Deferred tax** | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| **CONSOLIDATED** | | | | |
| ***Deferred tax liabilities*** | | | | |
| Property, plant & equipment | 31,540 | 30,230 | (1,310) | 692 |
| Film distribution royalties | 39,269 | 44,649 | 5,380 | (6,805) |
| Intangible assets | 3,547 | 3,447 | (100) | 239 |
| Other | 1,161 | 2,229 | 1,068 | 2,820 |
| Net-down with deferred tax assets | (31,721) | (32,211) | - | - |
| Total deferred income tax liabilities | 43,796 | 48,344 | | |
| ***Deferred tax assets*** | | | | |
| Post-employment benefits | 7,662 | 6,994 | 668 | 703 |
| Property, plant & equipment | 13,050 | 13,295 | (245) | 1,239 |
| Sundry creditors & accruals | 2,929 | 2,880 | 49 | 423 |
| Expenses deductible over more than one year | 913 | 1,140 | (227) | 203 |
| Provisions and unrealised foreign currency losses | 3,313 | 3,918 | (605) | (6,687) |
| Unearned income | 1,182 | 1,742 | (560) | 408 |
| Booked income tax losses & foreign tax credits | - | 370 | (370) | (1,626) |
| Capitalised development costs | 1,572 | - | 1,572 | - |
| Other | 2,013 | 2,885 | (872) | (2,079) |
| Net-down with deferred tax liabilities | (31,721) | (32,211) | - | - |
| Total deferred income tax assets | 913 | 1,013 | | |
| Deferred income tax (expense) benefit | | | 4,448 | (10,470) |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **(d) The following deferred tax assets arising from tax losses have not been brought to account as realisation of those benefits is not probable:** | | |
| Benefits for capital losses | 2,493 | 597 |

**Village Roadshow Limited - Tax Consolidation**

Effective from 1 July 2003, VRL and its relevant wholly-owned entities have formed a Tax Consolidated group. Members of the Tax Consolidated group have executed a combined Tax Sharing and Tax Funding Agreement ("TSA") in order to allocate income tax expense to the wholly-owned entities predominantly on a stand-alone basis. In addition, the TSA provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations to the Australian Taxation Office. At balance date, the possibility of default is remote. The head entity of the Tax Consolidated group is VRL. VRL has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime.

**Village Roadshow Limited - Tax Consolidation contribution amounts**

In the year ended 30 June 2014, VRL recognised an increase in current tax liabilities of $34.8 million (2013: $29.1 million), and an increase in inter-company receivables of $34.8 million (2013: $29.1 million) in relation to tax consolidation contribution amounts.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **5 DIVIDENDS DECLARED**[1] | | |
| **(a) Declared during the year** | | |
| Final dividend on ordinary shares of 13.0 cents per share fully-franked (2013: 10.0 cents per share unfranked)[2] | 20,733 | 15,326 |
| Distribution on ordinary shares of 13.0 cents per share fully-franked (2013: nil) | 20,734 | - |
| Interim dividend on ordinary shares of 13.0 cents per share fully-franked (2013: 13.0 cents per share fully-franked) | 20,735 | 20,729 |
| Special dividend on ordinary shares of 15.0 cents per share fully-franked (2013: nil) | 23,925 | - |
| | 86,127 | 36,055 |
| **(b) Declared subsequent to year-end**[3] | | |
| Final dividend on ordinary shares of 14.0 cents per share fully-franked (2013: 13.0 cents per share fully-franked) | 22,331 | 20,732 |
| | 22,331 | 20,732 |

1 The tax rate at which paid dividends have been franked is 30% (2013: 30%).

2 The unfranked amount (100%) of the final dividend of 10.0 cents per share declared in the year ended 30 June 2013 represents conduit foreign income.

3 The final dividends for the years ended 30 June 2014 and 30 June 2013, which were declared subsequent to year-end, were not accrued in the 30 June 2014 or 30 June 2013 accounts respectively.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 6 | **CASH AND CASH EQUIVALENTS** | | |
| (a) | **Reconciliation of cash** | | |
| | Cash on hand and at bank | 34,017 | 48,202 |
| | Deposits at call | 96,365 | 98,707 |
| | Total cash and cash equivalents - continuing operations | 130,382 | 146,909 |
| | For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June: | | |
| | Total cash and cash equivalents - continuing operations | 130,382 | 146,909 |
| | Total cash and cash equivalents for the purposes of the statement of cash flows | 130,382 | 146,909 |
| (b) | **Reconciliation of net profit to net operating cash flows** | | |
| | Net profit | 46,612 | 51,084 |
| | Adjustments for: | | |
| | Depreciation | 44,338 | 36,167 |
| | Amortisation | 21,011 | 18,097 |
| | Impairment, write-downs and provisions relating to non-current assets and onerous lease (refer Note 2(d)) | 3,003 | 14,383 |
| | Provisions | 1,469 | 3,217 |
| | Shared-based payment expense | 1,544 | 895 |
| | Net (gains) losses on disposal of assets | (138) | (6,804) |
| | Unrealised foreign currency (profit) loss | (185) | 26 |
| | Unrealised derivative (gain) loss (refer Note 2(e)) | 26 | (2,637) |
| | Difference between equity accounted results and cash dividends received | 12,385 | (3,284) |
| | Changes in assets & liabilities: | | |
| | (Increase) decrease - trade and other receivables | 2,970 | (166) |
| | Increase (decrease) - trade and other payables | (34,260) | 32,367 |
| | (Increase) decrease - net current tax assets | (3,212) | 14,066 |
| | Increase (decrease) - unearned income | (3,710) | 10,234 |
| | Increase (decrease) - other payables and provisions | (5,111) | 168 |
| | (Increase) decrease - inventories | (1,823) | (870) |
| | (Increase) decrease - capitalised borrowing costs | 1,529 | 2,271 |
| | Increase (decrease) - deferred and other income tax liabilities | (2,664) | 10,470 |
| | (Increase) decrease - prepayments and other assets | (5,007) | (6,552) |
| | (Increase) decrease - film distribution royalties | 17,936 | (22,393) |
| | Net operating cash flows | 96,713 | 150,739 |
| (c) | **Financing facilities available** | | |
| | At reporting date, the following financing facilities were available: | | |
| | Total facilities | 684,153 | 570,369 |
| | Facilities used at reporting date | 486,653 | 421,755 |
| | Facilities unused at reporting date | 197,500 | 148,614 |

Refer also to Note 30 for an analysis of the Group's liquidity profile.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 7 | **TRADE AND OTHER RECEIVABLES** | | |
| | *Current:* | | |
| | Trade and other receivables | 113,025 | 117,895 |
| | Provision for impairment loss (a) | (5,289) | (5,330) |
| | | 107,736 | 112,565 |
| | *Non-current:* | | |
| | Trade and other receivables | 14,071 | 14,265 |
| | Unsecured advances - other | - | 1,351 |
| | Due from associates | 10,805 | 11,730 |
| | Provision for impairment loss (b) | (10,805) | (11,730) |
| | | - | - |
| | | 14,071 | 15,616 |
| (a) | **Trade & other receivables and provision for impairment loss** | | |
| | At 30 June, the ageing analysis of trade and other receivables is as follows: | | |
| | 0 to 3 months[1] | 121,082 | 125,534 |
| | > 3 months | 725 | 1,296 |
| | 0 to 3 months - CI* | - | 22 |
| | 3 to 6 months - CI* | 50 | 56 |
| | > 6 months - CI* | 5,239 | 5,252 |
| | Total trade and other receivables before provisions | 127,096 | 132,160 |

* Considered Impaired ("CI")

[1]Includes receivables past due but not considered impaired of $34,000 (2013: Nil).

Trade receivables are non-interest bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired (refer Note 30(c)(i)).

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| | Movements in the provision for impairment loss were as follows: | | |
| | Carrying amount at beginning | 5,330 | 5,433 |
| | Charge for the year | 22 | 71 |
| | Foreign exchange translation | 6 | 5 |
| | Amounts written off for the year | (69) | (179) |
| | Carrying amount at end | 5,289 | 5,330 |
| (b) | **Due from associates and provision for impairment loss** | | |
| | At 30 June, the ageing analysis of amounts owing by associates is as follows: | | |
| | 0 to 3 months - CI* | 10,805 | 11,730 |
| | Total due from associates before provisions | 10,805 | 11,730 |

* Considered Impaired ("CI")
Receivables past due but not considered impaired are Nil (2013: Nil).

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| | Movements in the provision for impairment loss were as follows: | | |
| | Carrying amount at beginning | 11,730 | 28,878 |
| | Decrease for the year | (925) | (17,148) |
| | Carrying amount at end | 10,805 | 11,730 |
| 8 | **INVENTORIES** | | |
| | *Current:* | | |
| | Merchandise held for resale - at cost | 20,184 | 17,795 |
| | Provision for stock loss | (2,379) | (1,707) |
| | | 17,805 | 16,088 |

Note: Cost of goods sold expense is represented by amounts paid for inventories - refer Note 2(d).

**9 GOODWILL AND OTHER INTANGIBLE ASSETS**

FOR THE YEAR ENDED 30 JUNE 2014

| | Film Distribution Rights | Goodwill | Brand Names[1] | Software & Other | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2013** | | | | | |
| Cost | 34,213 | 250,144 | 33,898 | 81,814 | 400,069 |
| Accumulated amortisation and impairment | (34,011) | (6,117) | (600) | (43,787) | (84,515) |
| Net carrying amount | 202 | 244,027 | 33,298 | 38,027 | 315,554 |
| **Year ended 30 June 2014** | | | | | |
| At 1 July 2013, net of accumulated amortisation and impairment | 202 | 244,027 | 33,298 | 38,027 | 315,554 |
| Additions/Transfers | - | - | - | 19,492 | 19,492 |
| Net foreign currency movements arising from investments in foreign operations | - | (43) | (18) | (106) | (167) |
| Acquisitions | - | 9,618 | - | - | 9,618 |
| Impairment | - | (1,636) | - | (1,367) | (3,003) |
| Disposals | - | (3,671) | (2,200) | (7,401) | (13,272) |
| Amortisation - refer Note 2(d) | (121) | - | - | (8,867) | (8,988) |
| Net carrying amount | 81 | 248,295 | 31,080 | 39,778 | 319,234 |
| **At 30 June 2014** | | | | | |
| Cost | 34,213 | 256,048 | 31,680 | 93,799 | 415,740 |
| Accumulated amortisation and impairment | (34,132) | (7,753) | (600) | (54,021) | (96,506) |
| Net carrying amount | 81 | 248,295 | 31,080 | 39,778 | 319,234 |

FOR THE YEAR ENDED 30 JUNE 2013

| | Film Distribution Rights | Goodwill | Brand Names[1] | Software & Other | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2012** | | | | | |
| Cost | 34,213 | 237,471 | 33,789 | 67,890 | 373,363 |
| Accumulated amortisation and impairment | (33,806) | (6,117) | (600) | (37,101) | (77,624) |
| Net carrying amount | 407 | 231,354 | 33,189 | 30,789 | 295,739 |
| **Year ended 30 June 2013** | | | | | |
| At 1 July 2012, net of accumulated amortisation and impairment | 407 | 231,354 | 33,189 | 30,789 | 295,739 |
| Additions/Transfers | - | - | - | 11,402 | 11,402 |
| Net foreign currency movements arising from investments in foreign operations | - | 456 | 109 | 661 | 1,226 |
| Acquisitions resulting from business combinations | - | 11,905 | - | 1,866 | 13,771 |
| Disposals | - | 312 | - | (5) | 307 |
| Amortisation - refer Note 2(d) | (205) | - | - | (6,686) | (6,891) |
| Net carrying amount | 202 | 244,027 | 33,298 | 38,027 | 315,554 |
| **At 30 June 2013** | | | | | |
| Cost | 34,213 | 250,144 | 33,898 | 81,814 | 400,069 |
| Accumulated amortisation and impairment | (34,011) | (6,117) | (600) | (43,787) | (84,515) |
| Net carrying amount | 202 | 244,027 | 33,298 | 38,027 | 315,554 |

Notes:
[1] In 2014, all of the brand names (2013: the majority of the brand names) relate to the Village Roadshow Theme Parks group.

## 9 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

### (a) Impairment testing of goodwill and brand names

Goodwill and indefinite life intangible assets are tested at least annually for impairment based upon the recoverable amount of the appropriate cash generating units ("CGU's") to which the goodwill and indefinite life intangibles have been allocated. Details of the Group's main goodwill and indefinite life intangible assets are provided below.

*Goodwill assessed on the basis of fair value less costs of disposal:*

The recoverable amount of the material balances of the Group's goodwill has been determined based on fair value less costs of disposal ("FVLCD") calculations. The key assumptions on which the Group has based cash flow projections when determining FVLCD were that projected future performance was based on past performance and expectations for the future, and that no significant events were identified which would cause the Group to conclude that past performance was not an appropriate indicator of future performance. The pre-tax discount rate applied to the cash flow projections was in the range of 11.4% to 15.4% (2013: 11.5% to 13.3%). Cash flows used were mainly from the Group's 5 year plans. Other than as noted otherwise, cash flows beyond five years were extrapolated using a terminal growth rate of 3% (2013: 3%). The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU's operate. Goodwill allocated to cash generating units and for impairment testing included material groupings and 2014 balances as follows:

- Village Roadshow Theme Parks group - $137.1 million (2013: $137.1 million) (re: Australian Theme Park interests)
- Roadshow Distributors Pty. Ltd. group - $57.1 million (2013: $57.1 million) (re: Film Distribution interests)
- Village Cinemas Australia Pty. Ltd. - $29.4 million (2013: $29.4 million) (re: Australian Theatres Joint Venture cinema circuit)
- Village Roadshow Theme Parks USA Inc. - $Nil (2013: $3.7 million) (re: Wet'n'Wild Hawaii)
- Village Roadshow Digital Pty. Ltd. group - $12.8 million (2013: $10.7 million) (re: Digital interests including Edge Loyalty Systems)

*Impairment losses recognised:*

Impairment losses for goodwill and other intangibles of $3.0 million were recognised for continuing operations in the year ended 30 June 2014, of which $2.5 million related to the Theme Parks segment, and $0.5 million related to the Cinema Exhibition segment. The pre-tax discount ranges used were 11.4% to 12.9%, and the recoverable amounts were based on fair value less costs of disposal. For the relevant Theme Parks assessment, cash flows beyond five years were extrapolated using a terminal growth rate of 2.5%, and the latest updated forecasts were used in the impairment review, which were lower than the forecasts included in the latest five year plan due to the relevant underlying financial performance being lower than expected. Under the fair value hierarchy, level 3 inputs were used, and the impairment losses have been disclosed in Note 2(d) for 2014.

*Brand Names:*

Brand names owned by the Village Roadshow Theme Parks group are classified as indefinite life intangible assets and are therefore subject to annual impairment testing. For the purposes of impairment testing the relevant brand names form part of the Australian Theme Parks CGU (2014: $31.1 million, 2013: $31.1 million). Refer above for further details relating to cash flows, growth and discount rates.

*Sensitivity to changes in assumptions:*

With regard to the assessment of the recoverable amount of intangible assets, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying values to exceed recoverable amounts.

| | | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **10** | **OTHER ASSETS AND FILM DISTRIBUTION ROYALTIES** | | |
| **(a)** | **Other Assets** | | |
| | *Current:* | | |
| | Prepayments | 6,458 | 7,720 |
| | Other assets | 13,788 | 8,652 |
| | | 20,246 | 16,372 |
| | *Non-current:* | | |
| | Security deposits | 49 | 1,425 |
| | Other assets | 1,807 | 562 |
| | | 1,856 | 1,987 |
| **(b)** | **Film Distribution Royalties** | | |
| | Opening balance | 148,831 | 126,439 |
| | Additions | 44,036 | 64,127 |
| | Foreign currency movements | (1,993) | 3,564 |
| | Film hire and other film expenses | (59,979) | (45,299) |
| | | 130,895 | 148,831 |
| | Current film distribution royalties | 44,233 | 49,703 |
| | Non-current film distribution royalties | 86,662 | 99,128 |
| | | 130,895 | 148,831 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **11 INVESTMENTS IN ASSOCIATES** | | |
| *Non-current:* | | |
| Investments in associates | 12,125 | 25,125 |

**(a) Investments in associates - detailed information: Dartina Development Limited ("Dartina"):**

(i) Nature of Relationship and ownership percentage:
The VRL group owns 50% of the ordinary shares in Dartina.

(ii) Principal Place of Business and Country of Incorporation:
Dartina was incorporated in Hong Kong, and the principal place of business for Dartina and its subsidiaries is 68 Orchard Road, B1-10 Plaza Singapura, Singapore.

(iii) Dividends Received:
In the year ended 30 June 2014, the VRL group received $20.9 million (2013: $3.9 million) in dividends from Dartina.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| (iv) Summarised Financial Information: | | |
| Current assets | 29,293 | 32,783 |
| Non-current assets | 51,218 | 51,819 |
| Current liabilities | (34,066) | (29,328) |
| Non-current liabilities | (21,009) | (3,836) |
| Equity | 25,436 | 51,438 |
| Carrying value of investment | 12,120 | 25,121 |
| Total income | 123,742 | 114,966 |
| Operating profit after tax - continuing operations | 15,404 | 13,953 |
| Operating profit after tax - discontinued operations | - | - |
| Total operating profit after tax | 15,404 | 13,953 |
| Other Comprehensive Income | 388 | 4,663 |
| Total Comprehensive Income | 15,792 | 18,616 |
| Equity-accounted share of Dartina's profit after tax | 7,702 | 6,976 |

**(b) Investments in associates - detailed information: Village Roadshow Entertainment Group Limited ("VREG"):**

(i) Nature of Relationship and ownership percentage:

The VRL group is the largest shareholder in Village Roadshow Entertainment Group Limited ("VREG"), with 47.12% (2013: 47.63%) of the ordinary shares of VREG.

The VRL group also holds dividend bearing non-voting redeemable equity shares ("redeemable equity shares"), which are scheduled to be redeemed by 2018 and can be converted into ordinary shares upon an Initial Public Offering of VREG. The redeemable amount, including accrued dividends as at 30 June 2014 is approximately USD 126.9 million. Partial redemption of the redeemable equity shares is currently not anticipated to commence in the short term. The redeemable equity shares are subordinated to VREG's securitised film financing and mezzanine debt in the event of default or poor film performance.

Subject to the film performance of VREG films and available free cash flow, the VRL group is entitled to receive approximately USD 6 million p.a. in cash dividends on the redeemable equity shares, as they earn a 5% p.a. cash dividend (which are accrued if not received in cash) and 9% p.a. payment in kind. In the year to 30 June 2014, no cash dividends were received from VREG, (2013: USD 3.9 million (A$3.8 million) cash dividends received, which were included as equity-accounted profits from VREG in the year ended 30 June 2013). The VRL group results only include cash dividends received from VREG.

The VREG Board is the ultimate decision-making body of VREG, however the provisions of the VREG Shareholders Agreement provide that most decisions regarding relevant activities of VREG are recommended to the Board by an advisory committee established under the Shareholders Agreement ("Advisory Committee"). The VRL group does not have control of either the VREG Board or Advisory Committee. Based on this, it has been determined that the VRL group does not control VREG in accordance with AASB 10: *Consolidated Financial Statements*, however the VRL group does have significant influence over VREG in accordance with AASB 128: *Investments in Associates*.

Therefore, the investment in VREG is equity-accounted, and as a result of the significant negative net asset position of VREG, the carrying value of the shareholding, including the redeemable equity shares, is fully provided against, so that the VRL group has no carrying value for accounting purposes. It is noted that VREG's film rights are recorded in its accounts (in non-current assets) at amortised cost, as required under IFRS, which is significantly less than the market value of these film rights.

(ii) Principal Place of Business and Country of Incorporation:
VREG was incorporated in the British Virgin Islands, and its principal place of business is Road Town, Tortola, British Virgin Islands.

(iii) Dividends Received:
In the year ended 30 June 2014, the VRL group did not receive any dividends from VREG (2013: $3.8 million received).

**11 INVESTMENTS IN ASSOCIATES (continued)**

**(b) Investments in associates - detailed information: Village Roadshow Entertainment Group Limited ("VREG") (continued):**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| (iv) Summarised Financial Information: | | |
| Current assets | 59,046 | 67,889 |
| Non-current assets | 334,011 | 396,419 |
| Current liabilities | (47,116) | (49,001) |
| Non-current liabilities | (1,147,493) | (1,272,058) |
| Equity | (801,552) | (856,751) |
| Carrying value of investment | - | - |
| Total income | 324,487 | 197,477 |
| Operating loss after tax (excluding gain on sale in 2014) | (83,791) | (50,283) |
| Gain on sale | 137,049 | - |
| Operating profit (loss) after tax - continuing operations | 53,258 | (50,283) |
| Operating profit (loss) after tax - discontinued operations | 287 | (33,054) |
| Total operating profit (loss) after tax | 53,545 | (83,337) |
| Other Comprehensive Income (Expense) | (10,828) | 9,519 |
| Total Comprehensive Income (Expense) | 42,717 | (73,818) |
| Equity-accounted share of VREG's profit (loss) after tax | - | 3,785 |
| Cumulative unrecognised share of VREG's losses after income tax due to discontinuation of equity method | (404,303) | (434,502) |

The summarised financial information shown above for 2014 is based on the unaudited management accounts of VREG for the year ended 30 June 2014, as the audited accounts are not yet available.

The VRL group's redeemable equity shares are included in VREG's non-current liabilities shown above, along with balances due on the film finance facility, and VREG's mezzanine debt.

The gain on sale shown above represents a gain on sale, in the first half of the 30 June 2014 financial year, of a one-sixth interest in future cash flows relating to 74 films, with proceeds used to reduce VREG's debt.

**(c) Investments in associates - aggregated information - Other Associates:**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| (i) Aggregated Financial Information - Other Associates: | | |
| Carrying value of investment | 5 | 4 |
| Share of operating profit (loss) after tax | 778 | (417) |
| Share of other Comprehensive Income | - | - |
| Share of Total Comprehensive Income (Expense) | 778 | (417) |
| Cumulative unrecognised share of Other Associates' losses after income tax due to discontinuation of equity method | (6,343) | - |

**(d) Contingent liabilities of associates:**
Share of contingent liabilities incurred jointly with other investors - refer Note 22 for disclosures.

**12 INTERESTS IN JOINT OPERATIONS**

Names and principal activities of joint operations, the percentage interest held by entities in the Group and the contributions of those joint operations to results after tax -

| NAME | PRINCIPAL ACTIVITY | % INTEREST HELD 2014 | CONTRIBUTIONS TO OPERATING PROFIT AFTER TAX 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| Australian Theatres[1] | Multiplex cinema operator | 50.00% | 35,148 | 32,665 |
| Browns Plains Multiplex Cinemas | Multiplex cinema operator | 33.33% | 140 | 70 |
| Carlton Nova / Palace | Cinema operator | 25.00% | 828 | 568 |
| Castle Towers Multiplex Cinemas | Multiplex cinema operator | 33.33% | 1,245 | 1,282 |
| Geelong Cinemas[2] | Cinema operator | - | - | 700 |
| Jam Factory Cinemas | Cinema operator | 50.00% | 687 | 678 |
| Loganholme Cinemas[3] | Cinema operator | 50.00% | 282 | - |
| Morwell Multiplex Cinemas | Cinema operator | 75.00% | 664 | 679 |
| Mt. Gravatt Multiplex Cinemas | Cinema operator | 33.33% | 690 | 1,179 |
| Village / GUO / BCC Cinemas | Cinema operator | 50.00% | 2,462 | 2,997 |
| Village / Sali Cinemas Bendigo | Cinema operator | 50.00% | 994 | 881 |
| Village Warrnambool Cinemas | Cinema operator | 50.00% | 172 | 158 |
| Werribee Cinemas | Cinema operator | 50.00% | 893 | 802 |
| | | | 44,205 | 42,659 |

There were no impairment losses in the joint operations.

[1] Principal place of business is Australia

[2] Included within the results of Australian Theatres JV from 2014 onwards.

[3] Interest in joint operation purchased during the year.

**13 SUBSIDIARIES**

| NAME | COUNTRY OF INCORPORATION[1] | % OWNED 2014 | % OWNED 2013 |
|---|---|---|---|
| DEG Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| Edge Loyalty Systems Pty. Limited | Australia | 100.00% | 100.00% |
| Entertainment of The Future Pty. Limited | Australia | 100.00% | 100.00% |
| Film Services (Australia) Pty. Limited | Australia | 100.00% | 100.00% |
| Harvest Family Entertainment Arizona LLC | United States | 100.00% | 100.00% |
| In10metro Pty. Limited | Australia | 100.00% | 100.00% |
| Movie World Holdings Joint Venture | Australia | 100.00% | 100.00% |
| MyFun Pty. Limited | Australia | 100.00% | 100.00% |
| Reel DVD Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Distributors Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Entertainment (NZ) Limited | New Zealand | 100.00% | 100.00% |
| Roadshow Films Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Live Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Pay Movies Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Television Pty. Limited | Australia | 100.00% | 100.00% |
| Roadshow Unit Trust | Australia | 100.00% | 100.00% |
| Sea World Helicopters Pty. Limited | Australia | 100.00% | 100.00% |
| Sea World Management Pty. Limited | Australia | 100.00% | 100.00% |
| Sea World Property Trust | Australia | 100.00% | 100.00% |
| Silver Handles Pty. Limited[3] | Australia | 100.00% | - |
| Sincled Investments Pty. Limited | Australia | 100.00% | 100.00% |
| The Waterpark LLC | United States | 50.09% | 50.76% |
| The Waterpark Management LLC | United States | 50.00% | 50.00% |
| VC Eye Pty. Limited[2] | Australia | 100.00% | 100.00% |
| Village Cinemas Australia Pty. Limited | Australia | 100.00% | 100.00% |
| Village Leisure Company Pty. Limited | Australia | 100.00% | 100.00% |
| Village Online Investments Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow (Fiji) Limited | Fiji | 100.00% | 100.00% |
| Village Roadshow (Hungary) Distribution KFT | Hungary | 100.00% | 100.00% |
| Village Roadshow Attractions USA Inc. | United States | 100.00% | 100.00% |
| Village Roadshow Australian Films Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Digital Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow East Coast Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Exhibition Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Hainan Pty. Limited[3] | Australia | 100.00% | - |
| Village Roadshow Holdings Hong Kong Limited[3] | Hong Kong | 100.00% | - |
| Village Roadshow Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Hungary ZRT | Hungary | 100.00% | 100.00% |
| Village Roadshow Intencity Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Investments Holdings USA Inc. | United States | 100.00% | 100.00% |
| Village Roadshow IP Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Leisure Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Pictures International Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Pictures Television Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Pictures Worldwide Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Properties Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Share Plan Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow SPV1 Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Theatres Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Theme Parks Holdings USA Inc. | United States | 100.00% | 100.00% |
| Village Roadshow Theme Parks Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow Theme Parks USA Inc. | United States | 100.00% | 100.00% |
| Village Roadshow Treasury Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow UK Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| Village Roadshow USA Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| Village Theatres 3 Limited | United Kingdom | 100.00% | 100.00% |
| Village Theatres Morwell Pty. Limited | Australia | 75.00% | 75.00% |
| VR Corporate Services Pty. Limited | Australia | 100.00% | 100.00% |
| VR ESP Finance Pty. Limited | Australia | 100.00% | 100.00% |
| VR Leisure Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| VRPPL Pty. Limited | Australia | 100.00% | 100.00% |
| VRS Holdings Pty. Limited | Australia | 100.00% | 100.00% |
| VRTP Entertainment Pty. Limited | Australia | 100.00% | 100.00% |
| VRTP Services Pty. Limited | Australia | 100.00% | 100.00% |
| WB Properties Australia Pty. Limited | Australia | 100.00% | 100.00% |
| Wet'n'Wild Sydney Pty. Limited | Australia | 100.00% | 100.00% |
| WSW Aviation Pty. Limited | Australia | 100.00% | 100.00% |
| WSW Units Pty. Limited | Australia | 100.00% | 100.00% |

1 Foreign subsidiaries carry out their business activities in the country of incorporation.

2 Entities placed into liquidation or dissolution during the year.

3 Entities purchased or incorporated during the year.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **14 PROPERTY, PLANT & EQUIPMENT** | | |
| *Land:* | | |
| At cost | 33,795 | 33,497 |
| *Buildings & improvements:* | | |
| At cost | 87,292 | 84,562 |
| Less depreciation and impairment | (26,932) | (24,066) |
| | 60,360 | 60,496 |
| *Capital work in progress* | 10,738 | 88,399 |
| *Leasehold improvements:* | | |
| At cost | 285,222 | 220,751 |
| Less amortisation and impairment | (97,095) | (88,812) |
| | 188,127 | 131,939 |
| *Plant, equipment & vehicles (owned):* | | |
| At cost | 653,876 | 567,643 |
| Less depreciation and impairment | (290,003) | (261,273) |
| | 363,873 | 306,370 |
| *Plant, equipment & vehicles (leased):* | | |
| At cost | - | 28,070 |
| Less amortisation and impairment | - | (9,875) |
| | - | 18,195 |
| | 656,893 | 638,896 |
| **(a) Reconciliations** | | |
| *Land:* | | |
| Carrying amount at beginning | 33,497 | 31,044 |
| Additions / transfers | 336 | - |
| Acquisitions from business combinations | - | 2,200 |
| Net foreign currency movements arising from investments in foreign operations | (38) | 253 |
| Carrying amount at end | 33,795 | 33,497 |
| *Buildings & improvements:* | | |
| Carrying amount at beginning | 60,496 | 52,123 |
| Additions / transfers | 2,841 | 11,466 |
| Net foreign currency movements arising from investments in foreign operations | (125) | 11 |
| Disposals[2] | (112) | - |
| Depreciation expense | (2,740) | (3,104) |
| Carrying amount at end | 60,360 | 60,496 |
| *Capital work in progress:* | | |
| Carrying amount at beginning | 88,399 | 17,035 |
| Additions | 69,688 | 73,651 |
| Net foreign currency movements arising from investments in foreign operations | 1 | 39 |
| Disposals[2] | (243) | - |
| Transfers | (147,107) | (2,326) |
| Carrying amount at end | 10,738 | 88,399 |
| *Leasehold improvements:* | | |
| Carrying amount at beginning | 131,939 | 129,184 |
| Additions / transfers | 75,955 | 12,518 |
| Impairment[1] | - | (551) |
| Net foreign currency movements arising from investments in foreign operations | (215) | 750 |
| Disposals[2] | (8,192) | (163) |
| Amortisation expense | (11,360) | (9,799) |
| Carrying amount at end | 188,127 | 131,939 |
| *Plant, equipment & vehicles (owned):* | | |
| Carrying amount at beginning | 306,370 | 287,182 |
| Additions / transfers | 121,124 | 59,480 |
| Impairment[1] | - | (8,136) |
| Net foreign currency movements arising from investments in foreign operations | (464) | 1,988 |
| Disposals[2] | (21,559) | (1,081) |
| Depreciation expense | (41,598) | (33,063) |
| Carrying amount at end | 363,873 | 306,370 |
| *Plant, equipment & vehicles (leased):* | | |
| Carrying amount at beginning | 18,195 | 17,966 |
| Net foreign currency movements arising from investments in foreign operations | (262) | 1,767 |
| Disposals[2] | (17,282) | (157) |
| Amortisation expense | (651) | (1,381) |
| Carrying amount at end | - | 18,195 |

[1] In the year ended 30 June 2013 a detailed review was carried out on the major rides/attractions that were committed for closure within the Theme Parks division to determine if there were any impairments based on the lower level review basis. This review included the assessment of make-good provisions likely to be required as part of the closures. Estimated carrying values and depreciation charges were reviewed, and after adjusting the depreciation charges over the remaining estimated useful lives, an impairment loss of $8.7 million was recognised. The impairment amounts were calculated after allowing for items that would be able to be reused or redeployed, as well as any estimated sale proceeds. The total impairment amount of $8.7 million has been included in amounts disclosed in Note 2(d) for 2013.

[2] In the year ended 30 June 2014, the Theme Park businesses in Phoenix & Hawaii, USA, were disposed of, which represent the majority of the asset disposals shown for 2014 above.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 15 | **TRADE AND OTHER PAYABLES** | | |
| | *Current:* | | |
| | Trade and sundry payables | 195,958 | 240,941 |
| | *Non-current:* | | |
| | Trade and sundry payables | 44,704 | 47,693 |
| | Owing to other | 1,493 | 3,539 |
| | | 46,197 | 51,232 |

For terms and conditions refer to Note 30(c)(ii).

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 16 | **INTEREST BEARING LOANS AND BORROWINGS** | | |
| | *Current:* | | |
| | Secured borrowings | 23,106 | 35,595 |
| | *Non-current:* | | |
| | Secured borrowings | 457,762 | 382,892 |

*Terms and conditions relating to the above financial instruments:*
The Company has a long-term finance facility with a facility limit of $100 million as at 30 June 2014 (30 June 2013: $100 million). This facility, which was undrawn as at 30 June 2014 and as at the date of this report, is secured by equitable share mortgages over certain subsidiary and associate holding companies, and by guarantees from various wholly-owned subsidiaries.

Other secured borrowings are separately secured by a fixed and floating charge over the assets of the Village Roadshow Theme Parks group, the Roadshow Distributors Pty. Ltd. group, and the Village Cinemas Australia Pty. Ltd. group. The security for these borrowings is limited to the assets and undertakings of each particular operation or groups of operations. The total carrying value of the financial assets that are secured is $1,423.8 million (2013: $1,272.3 million). The lease liabilities are secured by a charge over the leased assets.

Refer Note 30(c)(ii) for additional information concerning finance lease terms and conditions.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 17 | **PROVISIONS** | | |
| | *Current:* | | |
| | Employee benefits | 27,384 | 26,488 |
| | Make good provision | 174 | 240 |
| | Dividends / distributions | 23,925 | - |
| | Other | 9,202 | 5,580 |
| | | 60,685 | 32,308 |
| | *Non-current:* | | |
| | Employee benefits | 2,901 | 2,465 |
| | Make good provision | 7,480 | 7,201 |
| | Other | 3,287 | 8,491 |
| | | 13,668 | 18,157 |
| | *Employee benefit liabilities:* | | |
| | Provision for employee benefits - | | |
| | Current | 27,384 | 26,488 |
| | Non-current | 2,901 | 2,465 |
| | Aggregate employee benefit liabilities | 30,285 | 28,953 |
| (a) | **Reconciliations** | | |
| | *Make good provision:* | | |
| | Carrying amount at the beginning of the financial year | 7,441 | 2,379 |
| | Amounts added during the year | - | 5,132 |
| | Amounts utilised or written back during the year | - | (117) |
| | Discount adjustment | 213 | 47 |
| | Carrying amount at the end of the financial year | 7,654 | 7,441 |
| | *Other provisions:* | | |
| | Carrying amount at the beginning of the financial year | 14,071 | 10,896 |
| | Increase in provision | 312 | 3,935 |
| | Amounts utilised or written back during the year | (1,895) | (778) |
| | Net foreign currency movements arising from investments in foreign operations | - | 18 |
| | Carrying amount at the end of the financial year | 12,488 | 14,071 |

**Make good provision**
In accordance with certain lease agreements, the Group must restore leased premises to the original condition on expiration of the relevant lease. Provisions are raised in respect of such 'make good' clauses to cover the Group's obligation to remove leasehold improvements from leased premises where this is likely to be required in the foreseeable future. In addition, in 2013, make good provisions were taken up in relation to the likely closure of rides/attractions in the Theme Parks division (refer also to Note 14). Because of the long term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred.

**Other provisions**
Other provisions mainly comprises an onerous lease provision (with the balance relating to various other matters). Due to the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **18 OTHER LIABILITIES** | | |
| *Current:* | | |
| Unearned revenue | 37,643 | 41,920 |
| *Non-current:* | | |
| Unearned revenue | 2,239 | 1,672 |
| **19 CONTRIBUTED EQUITY** | | |
| Issued & fully paid up capital: | | |
| Ordinary shares | 232,830 | 251,782 |
| Employee share loans deducted from equity [1] | (13,639) | (17,437) |
| | 219,191 | 234,345 |

[1] Secured advances - executive loans (refer also to Note 25).
Under the terms of the Executive & Employee Option Plan Loan Facility, dividends are used to repay the interest accrued with any surplus dividend payment used to repay the capital amount of the loan.

Under the terms of the Executive Share Plan & Loan Facility to 2011, 10 cents of every dividend per share is used to repay the interest accrued and 50% of any remaining dividend per share is used to repay the capital amount of the loan. Under the terms of the Executive Share Plan & Loan Facility for allotments from 2012 onwards, 20 cents of every dividend per share is used to repay the interest accrued and 50% of any remaining dividend per share is used to repay the capital amount of the loan.

*Ordinary Shares:*
During the 2014 and 2013 years, movements in fully paid ordinary shares on issue were as follows:

| | CONSIDERATION 2014 $'000 | CONSIDERATION 2013 $'000 | NO. OF SHARES 2014 Thousands | NO. OF SHARES 2013 Thousands |
|---|---|---|---|---|
| Beginning of the financial year | 251,782 | 236,932 | 159,477 | 153,240 |
| Allotment - September 2012 at $3.52 - Directors' Share Plan | - | 57 | - | 16 |
| Allotment - October 2012 at $3.52 - Employee Share Plan | - | 2,218 | - | 630 |
| Allotment - November 2012 at $3.78 - Employee Share Plan | - | 1,134 | - | 300 |
| Allotment - December 2012 at $3.80 - Directors' Share Plan | - | 57 | - | 15 |
| Allotment - December 2012 at $3.92 - Employee Share Plan | - | 1,568 | - | 400 |
| Share issue on exercise of options - February 2013 at $2.00 | - | 4,501 | - | 2,250 |
| Share issue on exercise of options - March 2013 at $2.00 | - | 5,209 | - | 2,604 |
| Allotment - March 2013 at $4.49 - Directors' Share Plan | - | 53 | - | 12 |
| Allotment - June 2013 at $5.17 - Directors' Share Plan | - | 53 | - | 10 |
| Reduction of share capital - December 2013 at $0.12[1] | (19,139) | - | - | - |
| Allotment - September 2013 at $6.30 - Directors' Share Plan | 53 | - | 9 | - |
| Allotment - December 2013 at $7.32 - Directors' Share Plan | 53 | - | 7 | - |
| Allotment - March 2014 at $7.30 - Directors' Share Plan | 40 | - | 6 | - |
| Allotment - June 2014 at $7.76 - Directors' Share Plan | 41 | - | 5 | - |
| End of the financial year | 232,830 | 251,782 | 159,504 | 159,477 |

[1] The reduction of share capital of $0.12 per share in 2014 was part of the total distribution of $0.25 per share, which included a fully-franked distribution of $0.13 per share, in December 2013.

*Issued Options:*
In accordance with a special resolution of the Company's shareholders on 17 July 2008, six million options over ordinary shares were allotted to Mr. Graham W. Burke, the Chief Executive Officer. Two million options were exercisable at an exercise price of $3.00 per share not earlier than 1 March 2011; two million options were exercisable at an exercise price of $3.00 per share not earlier than 1 March 2012; and two million options were exercisable at an exercise price of $3.00 per share not earlier than 1 March 2013. Following approval by shareholders in general meeting, the exercise price of the options over ordinary shares was reduced from $3.00 to $2.00 per share, effective from 19 July 2011, to reflect the distribution of $1.00 per share paid on that date. The clarification of option terms was also approved by shareholders in general meeting. During the year ended 30 June 2011, 742,904 first tranche options vested and 257,096 first tranche options lapsed, with 1,000,000 first tranche options subject to retesting in 2012. During the year ended 30 June 2012, 1,000,000 first tranche options and 507,132 second tranche options vested and 492,868 second tranche options lapsed, with 1,000,000 second tranche options subject to retesting in 2013. During the year ended 30 June 2013, 1,000,000 second tranche options and 1,603,863 third tranche options vested and 396,137 third tranche options lapsed.

In accordance with a special resolution of the Company's shareholders on 15 November 2012, 4,500,000 options over ordinary shares were allotted to Mr. Graham W. Burke, the Chief Executive Officer, with 1,500,000 options being exercisable at an exercise price of $3.76 per share not earlier than 1 March 2016; 1,500,000 options being exercisable at an exercise price of $3.76 per share not earlier than 1 March 2017; and 1,500,000 options being exercisable at an exercise price of $3.76 per share not earlier than 1 March 2018. Following the $0.25 reduction of share capital approved by shareholders at the Annual General Meeting in November 2013, the exercise price of these options was reduced to $3.51 per share, effective from 31 December 2013. All the options are subject to performance hurdles as outlined in Note 25 and are exercisable no later than 1 March 2019 or 12 months following cessation of Mr. Burke's employment with the Company, whichever is the earlier. The names of all persons who currently hold options are entered in the register kept by the Company, which may be inspected free of charge.

As at 30 June 2014, the details of outstanding options over ordinary shares were as follows:

| Number of options | Expiry date | Exercise price per option |
|---|---|---|
| 1,500,000 | 1 March 2019 | $3.51 |
| 1,500,000 | 1 March 2019 | $3.51 |
| 1,500,000 | 1 March 2019 | $3.51 |

The Company has also issued various "in substance options" - refer Note 25.

*Terms and conditions of contributed equity*
Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, holders of such shares have the right to participate in the distribution of any surplus assets of the Company.

Ordinary shares entitle their holder to the following voting rights:
- On a show of hands - one vote for every member present in person or by proxy.
- On a poll - one vote for every share held.

**19 CONTRIBUTED EQUITY (continued)**

*Capital management*

When managing capital, management's objective is to ensure that the Group continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

As the market is constantly changing and the Group reviews new opportunities, management may change the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt, as methods of being able to meet its capital objectives.

Management undertake continual reviews of the Group's capital and use gearing ratios as a tool to undertake this (net debt/total capital). The gearing ratios at 30 June 2014 and 2013 were as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Total borrowings | 480,868 | 418,487 |
| Less cash and cash equivalents | (130,382) | (146,909) |
| Net debt | 350,486 | 271,578 |
| Total equity | 521,310 | 572,078 |
| Total capital | 871,796 | 843,656 |
| Gearing ratio | 40% | 32% |

Other than as required as usual under various financing agreements, the Group is not subject to any externally imposed capital requirements.

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **20 RESERVES AND RETAINED EARNINGS** | | |
| *Foreign currency translation reserve:* | | |
| The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and on equity accounting of associates. | | |
| Balance at beginning of year | (6,180) | (15,394) |
| Amount relating to translation of accounts & net investments before tax effect | 1,904 | 9,614 |
| Tax effect of relevant movements for year | (8) | (400) |
| Balance at end of year | (4,284) | (6,180) |
| *Cash flow hedge reserve:* | | |
| This reserve records the portion of the gain or loss on hedging instruments that are classified as cash flow hedges, and which are determined to be effective hedges. | | |
| Balance at beginning of year | 1,452 | (462) |
| Movement on effective hedging instruments during the year before tax effect | (3,776) | 2,734 |
| Tax effect of movement on effective hedging instruments during the year | 1,133 | (820) |
| Balance at end of year | (1,191) | 1,452 |
| *Asset revaluation reserve:* | | |
| The asset revaluation reserve is used to record uplifts on assets owned following business combinations. | | |
| Balance at beginning of year | 91,474 | 91,474 |
| Balance at end of year | 91,474 | 91,474 |
| *Employee equity benefits reserve:* | | |
| This reserve is used to record the value of equity benefits provided to Directors and executives as part of their remuneration (refer Note 25). | | |
| Balance at beginning of year | 8,863 | 8,010 |
| Share based payment movements | 1,544 | 853 |
| Balance at end of year | 10,407 | 8,863 |
| *General reserve:* | | |
| The general reserve is used for amounts that do not relate to other specified reserves. | | |
| Balance at beginning of year | 344 | 344 |
| Balance at end of year | 344 | 344 |
| Total reserves | 96,750 | 95,953 |
| *Retained earnings:* | | |
| Balance at the beginning of year | 230,862 | 215,986 |
| Net profit attributable to members of VRL | 45,769 | 50,931 |
| Total available for appropriation | 276,631 | 266,917 |
| Dividends and distributions provided or paid | (86,127) | (36,055) |
| Balance at end of year | 190,504 | 230,862 |
| | | |
| **21 NON-CONTROLLING INTEREST** | | |
| Non-controlling interest in subsidiaries: | | |
| Contributed equity | 14,022 | 10,765 |
| Retained earnings | 843 | 153 |
| | 14,865 | 10,918 |

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **22** | **CONTINGENCIES** | | |
| **(a)** | **Contingent liabilities** | | |
| | *Best estimate of amounts relating to:* | | |
| (i) | Bank guarantees for commitments of subsidiaries | 312 | 5,712 |
| (ii) | Joint and several obligations for operating lease commitments of partners in joint operations[1] | 39,708 | 64,237 |
| (iii) | Corporate guarantees for commitments of subsidiaries | - | 317 |
| | | 40,020 | 70,266 |

[1] Refer Note 22(b)(i) for corresponding amount reflecting the related contingent assets.

(iv) Other contingent liabilities - Income Tax:
As disclosed in Note 22(a)(vi) in the 30 June 2013 financial report, the VRL group anticipates that tax audits may occur from time to time in Australia, and the VRL group is subject to routine tax audits in certain overseas jurisdictions.

(v) Belfast Rent Dispute:
As disclosed in Note 22(a)(vii) in the 30 June 2013 financial report, Village Theatres 3 Limited ("VT3"), a wholly-owned subsidiary in the VRL group, is continuing to take action against its landlord seeking damages. The landlord is also seeking payment of unpaid rent, which has been fully accrued in VT3's accounts as at 30 June 2014.

(vi) Other contingent liabilities - Legal action relating to former subsidiary in Sydney Attractions Group:
As disclosed in Note 22(a)(viii) in the 30 June 2013 financial report, a former subsidiary of VRL, within the Sydney Attractions Group ("SAG"), had taken legal proceedings to claim amounts owed by the vendor of a business sold to SAG. The vendor had lodged a counter-claim in those proceedings. Settlement was reached in December 2013, resulting in a payment by VRL of approximately $4.6 million. This settlement amount, together with related legal expenses incurred, has been expensed in the accounts to 30 June 2014 (refer Material Items of Income and Expense in the Reconciliation of Results, which forms part of the Directors' Report).

(vii) Guarantee issued in relation to Associate:
In the year ended 30 June 2014, VRL has procured a bank guarantee to support the financing of an associated entity, VR iPic Finance LLC ("VRIF"), in which the VRL group has a 42.86% (3/7th) interest. VRIF has obtained debt financing to contribute funds to iPic-Gold Class Entertainment LLC ("IGCE"), which is also an associated entity of VRL. Another shareholder of IGCE is also providing guarantee support to VRIF. VRL's guarantee exposure is expected to increase to approximately USD 11.7 million by around June 2015.

(viii) Dormant subsidiary placed into liquidation:
In the year ended 30 June 2014, VC Eye Pty. Ltd., a dormant wholly-owned subsidiary, was placed into creditors' voluntary liquidation. As VC Eye Pty. Ltd. has only nominal assets, no material impact on the VRL group is expected from this liquidation.

(ix) Legal action relating to ride constructed at Sea World, Gold Coast:
In the year ended 30 June 2014, following the termination of a contract for construction of a new ride at Sea World by SX Projects Pty. Ltd. ("SX Projects"), a writ has been filed by SX Projects seeking approximately $3 million from the VRL group. A Defence and Counter-Claim has been filed to the effect that the VRL group's termination was lawful. The matter is making its way through the court process. The VRL group has not provided any amount in relation to this claim.

(x) Legal action relating to cancelled New Year's Eve event at Wet'n'Wild Sydney:
In the year ended 30 June 2014, following the cancellation of a New Year's Eve event at Wet'n'Wild Sydney, which was being organised and promoted by an external party, One Cube Entertainment Pty. Ltd. ("OC"), legal proceedings have been commenced by OC, claiming approximately $1 million. The VRL group has filed a defence and the matter is currently progressing through the court process. No trial date has been set and the VRL group has not provided any amount in relation to this claim.

**(b) Contingent assets**
In the event that any entity in the Group is required to meet a joint venture or partnership liability in excess of its proportionate share, that entity has right of recourse against the co-joint venturers or other partners in respect of that excess. Specifically, the Group has a contingent asset for the amount of the following joint and several operating lease commitments in the event that it is called upon to meet liabilities of the other joint venturers:

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| (i) | Right of recourse in relation to joint and several obligations for operating lease commitments of partners in joint operations[1] | 39,708 | 64,237 |

[1] refer Note 22(a)(ii) for corresponding amount reflecting the related contingent liabilities.

## 23 COMMITMENTS

### (a) Operating leases

The Group has entered into commercial leases for cinemas, offices and other operational location sites. The lease commitments schedule below includes cinema and office leases with terms of up to 15 years, however it does not include terms of renewal. In general, cinema and office leases do not include purchase options although on rare occasions there may be a purchase option. Renewals are at the option of the specific entity that holds that lease. In addition, the leases include the Crown leases entered into by Sea World Property Trust, which have a remaining term of 43 years, and the Wet'n'Wild Sydney ground lease, which has a remaining term of 49 years.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| (i) | Operating leases - Minimum lease payments: | | |
| | Payable within 1 year | 40,826 | 41,275 |
| | Payable between 1 and 5 years | 145,921 | 142,824 |
| | Payable after 5 years | 230,734 | 265,282 |
| | | 417,481 | 449,381 |
| (ii) | Operating leases - Percentage based lease payments:[1] | | |
| | Payable within 1 year | 6,794 | 5,677 |
| | Payable between 1 and 5 years | 23,889 | 20,191 |
| | Payable after 5 years | 24,005 | 33,383 |
| | | 54,688 | 59,251 |
| | Total operating lease commitments | 472,169 | 508,632 |

[1] Accounting standard AASB 117: *Leases* applies to the rental commitments of the Group. The Group is required to pay percentage rent on certain operating leases. Percentage rent is payable as either Incentive Rent or Revenue Share. Incentive Rent occurs when the operating lease creates a liability to pay the lessor a percentage of the Gross Receipts when a cinema site's earnings exceed the Base Rent. Gross receipts are generally made up of box office takings, concession sales and screen advertising, but may also include revenue from licence fees, arcade games and the sale of promotional material. It is not possible for the Group to reliably determine the amount of percentage rent that will be payable under each of the operating leases, as such, percentage rent is expensed as incurred, rather than being included in the operating rent expense recognised on a straight-line basis over the life of the lease.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **(b)** | **Other expenditure commitments** | | |
| | Estimated capital and other expenditure contracted for at reporting date but not provided for: | | |
| | Payable within one year | 18,338 | 77,813 |
| | Payable between 1 and 5 years | 5,038 | 4,954 |
| | Payable later than 5 years | 1,819 | 2,477 |
| | Total other expenditure commitments | 25,195 | 85,244 |

## 24 KEY MANAGEMENT PERSONNEL DISCLOSURES

Detailed remuneration disclosures of the Key Management Personnel ("KMP") of the Company and Group are set out in the Remuneration Report section of the Directors' Report.

### (a) Compensation of Key Management Personnel by Category

The compensation, by category, of the Key Management Personnel is set out below:

| | CONSOLIDATED | | VILLAGE ROADSHOW LIMITED | |
|---|---|---|---|---|
| | 2014 $ | 2013 $ | 2014 $ | 2013 $ |
| Short-Term | 11,692,710 | 11,253,666 | 11,692,710 | 11,253,666 |
| Post-Employment | 210,369 | 183,688 | 210,369 | 183,688 |
| Other Long-Term | 232,377 | 181,202 | 232,377 | 181,202 |
| Termination Benefits | - | - | - | - |
| Sub-totals | 12,135,456 | 11,618,556 | 12,135,456 | 11,618,556 |
| Share-based Payment | 1,114,440 | 497,608 | 1,114,440 | 497,608 |
| Totals | 13,249,896 | 12,116,164 | 13,249,896 | 12,116,164 |

### (b) Other transactions and balances with Key Management Personnel

Peninsula Cinemas Pty. Ltd., which are non-competing cinemas owned by an entity associated with Mr. R.G. Kirby, exhibit films supplied by the Roadshow Distributors Pty. Ltd. group ("RD group") on arm's length terms and conditions. The total amount paid to the RD group for the year ended 30 June 2014 was $358,685 (2013: $302,595). The entities in the RD group are wholly-owned subsidiaries of the VRL group.

The consolidated entity purchased wine from Yabby Lake International Pty. Ltd., an entity in which family members of Mr. R.G. Kirby have an economic interest. The total purchases were $305,999 for the year ended 30 June 2014 (2013: $289,764). The wine purchased was mainly for the Cinema Exhibition division's Gold Class and Europa cinemas and for Corporate functions. These transactions were carried out under arm's length terms and conditions.

The consolidated entity purchased swimwear from Garyson Nominees Pty. Ltd., an entity associated with Mr. G.W. Burke. The total purchases were $50,338 for the year ended 30 June 2014 (2013: $53,989). The swimwear was purchased on an arm's length basis as merchandise for resale by the Theme Parks division.

The consolidated entity recharged occupancy costs and other net recharges for services provided and received, on an arm's length basis, to a number of entities associated (either individually or collectively) with Messrs. R.G. Kirby, J.R. Kirby and G.W. Burke. The total net amount charged for the various occupancy and other services in the year ended 30 June 2014 was $83,530 (2013: $77,441).

The consolidated entity reimbursed Carolyna Chase Pty. Ltd., an entity associated with Mr. J.R. Kirby, for accommodation and transport costs, on arm's length terms and conditions. The total amount reimbursed for the year ended 30 June 2014 was $Nil (2013: $4,370).

As at 30 June 2014, the total amount owing by the related parties detailed above, and included in current assets of the VRL group, was $16,142 (2013: $19,251), and the total amount owing by the VRL group to the related parties detailed above, and included in current liabilities, was $1,662 (2013: $8,235).

**25 SHARE BASED PAYMENT PLANS**

**(a) Long Term Incentive Executive Share and Loan Plans ("LTI plans")**

The Company has used the fair value measurement provisions of AASB 2: *Share-based Payment* for all options or equity instruments granted to Directors and relevant senior executives after 7 November 2002 which have not vested as at 1 January 2005. Under AASB 2: *Share-based Payment* these LTI plan shares and loans are all treated as 'in substance options' even where the equity instrument itself is not a share option.

The fair value of such 'in substance option' grants is amortised and disclosed as part of Director and senior manager compensation on a straight-line basis over the vesting period.

During the current and prior periods the consolidated entity had three different LTI plans in which Group employees, including Key Management Personnel ("KMP"), participated to varying extents. These included:

1. The Company's Executive Share Plan and Loan Facility ("ESP") introduced in 1996;

2. The 2008 Option Plan over ordinary shares to the Company's CEO ("2008 OP"); and

3. The 2012 Option Plan over ordinary shares to the Company's CEO ("2012 OP").

At 30 June 2014 both the ESP and 2012 OP remain in operation.

In addition the Group has a loan arrangement over a 1993 legacy equity-linked performance plan in which Mr. P.M. Harvie is the sole remaining participant, where dividends are used to repay the interest accrued with any surplus dividend payment used to repay the capital amount of the loan. All grants to Mr. Harvie under this legacy plan were in his capacity as an executive of the consolidated entity and were prior to him becoming part of KMP of the Company. One of these loans, over 64,350 shares, was repaid from dividends during the 2014 year (2013: Nil shares).

All LTI plans have been approved by shareholders at the time of their introduction. Grants were made from time to time as appropriate, and all proposed grants to Directors of the Company were put to shareholders for approval. The quantum of the LTI plan grants are reflective of the seniority of the position of the relevant executive and their ability to contribute to the overall performance of the consolidated entity.

The ESP plan for senior executives of the consolidated entity has no specific performance conditions for the removal of restrictions over the relevant shares other than successful achievement of annual performance criteria. Any value accruing to KMP and senior executives from the LTI plan is derived from improvement in the Company's share price and dividends and distributions by the Company. The LTI plan also encourages a sense of ownership with those senior executives to whom the LTI plan shares are granted, assisting in aligning their long term interests with those of shareholders.

The Company considers that the five year period over which the ESP 'in-substance options' are 'earned' and the long term horizon of the loans from the consolidated entity for the ESP for the duration of the employees' employment are appropriate given the shorter term annual performance hurdles to which each senior executive is subject. Similarly, the three, four and five year vesting periods of the ordinary options granted to the entity's CEO in both the 2008 OP and 2012 OP, together with the performance conditions attaching to each tranche of options, are designed to encourage performance and to closely align the CEO's interests with those of shareholders.

There are no provisions within any of the LTI plans for the automatic removal of restrictions on the relevant shares in the event of a change of control of the Company.

The ESP has limited recourse loans secured over the relevant shares, together with a buy-back option in the event of default. The Company has full control over all loans and the repayment thereof and full control over all shares including through holding locks. From 1 July 2011 the Company has implemented a policy that specifically prohibits the hedging of incentive remuneration granted to Executive KMP, whether restricted or unrestricted. For the CEO's 2008 and 2012 ordinary options, the terms of the offers specifically prohibit the hedging of unvested options by Mr. Burke.

From 1 January 2005, 'in substance options' granted as part of employee and executive compensation have been valued using the Black-Scholes or binomial option-pricing model or the Monte Carlo simulation technique, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the 'in substance option'.

**(b) Share based Long Term Incentive grants**

*(i) Executive Share Plan and Loan Facility ("ESP")*

The Company's ESP was approved by shareholders on 19 November 1996 and allows for the issue of up to 5% of the Company's issued A Class Preference shares (now ordinary shares) to relevant employees of the consolidated entity and significant associated entities. Directors of the Company are not eligible to participate in the ESP. The conversion of the Company's preference shares on 16 November 2010 into ordinary shares also applied to ESP preference shares and the ESP is now ordinary share based. All grants to Mr P.M. Harvie were in his capacity as an executive of the consolidated entity and were prior to him becoming a Director of the Company.

Offers are at the discretion of the Directors and shares are issued at the 5-day weighted average price on the market prior to allotment, rounded up to the next whole cent. The shares are held directly by the employee who pays for the allotment by obtaining a loan from the consolidated entity which holds the ESP shares as security.

The ESP was amended in 2012. Shares issued prior to 2012 are earned and become exercisable at the rate of 20% per year over five years from date of issue. The loan bears interest at ten cents per share per annum, and ten cents of dividends per share each year is used to repay the interest accrued and 50% of the remaining dividend per share is used to repay the capital amount of the loan. For shares issued in 2012 and thereafter, one third vest at the end of years 3, 4 and 5 from the date of issue, the loan bears interest at twenty cents per share per annum, and the first twenty cents of dividends per share per year is used to repay the interest charged, and 50% of the remaining dividend per share is used to repay the capital amount of the loan. For shares issued in 2012 or thereafter, where the loan balance owing falls below $2.00 per share, the interest rate becomes 10% of the balance owing on the loan.

If the employee resigns or is dismissed, the restricted shares are forfeited and the loan on the remaining unrestricted shares must be repaid within six months or such other time as approved by Directors. In circumstances where the market value of the remaining ESP shares at the end of the six month period is less than the amount owing on the loan, then the Company will buy-back the shares and cancel them in repayment of the loan without further recourse to the employee. This is the basis on which they have been described as 'in substance options'.

Under AASB 2: *Share-based Payment,* any allotments under the ESP are required to be accounted for and valued as equity settled options, and have been referred to as 'in substance options', even though the equity instrument itself is not an option.

**25 SHARE BASED PAYMENT PLANS** (continued)

**(b) Share based Long Term Incentive grants** (continued)

*(i) Executive Share Plan and Loan Facility ("ESP") (continued)*

On 29 November 2010, 350,000 ordinary shares were allotted under the ESP. The fair value of each 'in substance option' was estimated on the date of grant using the binomial option-pricing model with the following assumptions:

- Value per loan per share: $2.35;
- Expected volatility: 35% based on historical volatility;
- Risk-free interest rate: 5.36% - the risk-free rate was converted to a continuously compounded rate; and
- Expected life of options: 8 years.

The resulting fair value per option for those 'in substance options' was $0.62.

The grant has been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $25,554 for the 2014 financial year (2013: $43,033).

On 29 June 2012, 1,700,000 ordinary shares were allotted under the ESP. The fair value of each 'in substance option' was estimated on the date of the grant using the binomial option pricing model with the following assumptions:

- Value per loan per share: $3.14;
- Expected volatility: 35% - based on historical volatility;
- Risk-free interest rate: 2.73% - the risk-free rate was converted to a continuously compounded rate; and
- Expected life of options: 8 years.

The resulting fair values per option for those 'in substance options' was $0.79.

These grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $350,672 for the 2014 financial year (2013: $350,672).

On 22 October 2012, 630,000 ordinary shares were allotted under the ESP. The fair value of each 'in substance option' was estimated on the date of the grant using the binomial option pricing model with the following assumptions:

- Value per loan per share: $3.52;
- Expected volatility: 35% - based on historical volatility;
- Risk-free interest rate: 2.78% - based on the 8 year Australian Government bond yield; and
- Expected life of options: 8 years.

The resulting fair values per option for those 'in substance options' was $0.96.

These grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $157,920 for the 2014 financial year (2013: $109,030).

On 29 November 2012, 300,000 ordinary shares were allotted under the ESP to Ms. J.E. Raffe. The fair value of each 'in substance option' was estimated on the date of the grant using the binomial option pricing model with the following assumptions:

- Value per loan per share: $3.78;
- Expected volatility: 35% - based on historical volatility;
- Risk-free interest rate: 3.07% - based on the 8 year Australian Government bond yield; and
- Expected life of options: 8 years.

The resulting fair values per option for those 'in substance options' was $1.05.

These grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $82,250 for the 2014 financial year (2013: $48,223).

For the June 2012 allotment, the ESP shares were granted at $3.14 to all executives other than Ms. Raffe, whose allocation was delayed to 29 November 2012 at an issue price of $3.78 to allow for shareholder approval at the Company's 2012 annual general meeting. The Company agreed to compensate Ms. Raffe with an additional bonus at the time of her future sale of ESP shares for the additional value, if any, foregone by the deferred grant date. This potential bonus payment to Ms. Raffe represents a cash-settled share-based payment estimated to be a maximum of $275,439, to be re-assessed at each financial year for changes in the expected probability of payment. The fair value of this cash-settled share-based payment was estimated on the basis of the estimated after-tax impact of $0.64 per share, being the difference between $3.78 and $3.14 and will be accrued over 5 years from date of grant, being $71,920 for the 2014 financial year (2013: $42,167).

On 20 December 2012, 400,000 ordinary shares were allotted under the ESP. The fair value of each 'in substance option' was estimated on the date of the grant using the binomial option pricing model with the following assumptions:

- Value per loan per share: $3.92;
- Expected volatility: 35% - based on historical volatility;
- Risk-free interest rate: 3.21% - based on the 8 year Australian Government bond yield; and
- Expected life of options: 8 years.

The resulting fair values per option for those 'in substance options' was $1.12.

These grants have been amortised over the vesting and exercisable periods resulting in an increase in employee benefits expense of $116,978 for the 2014 financial year (2013: $61,854).

The expected volatility of all ESP allotments reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Under AASB 2: *Share-based Payment,* any allotments under the ESP are also referred to as 'in substance options' even though the equity instrument itself is not an option.

**25 SHARE BASED PAYMENT PLANS** (continued)

**(b) Share based Long Term Incentive grants** (continued)

*(ii) 2008 Option Plan over ordinary shares to the entity's CEO ("2008 OP")*

The 2008 OP for the Company's CEO, Mr. Graham Burke, was approved by the Company's shareholders on 17 July 2008 with a grant on 18 July 2008 of six million options over ordinary shares exercisable at $3.00 per share, with vesting subject to performance hurdles relating to growth in earnings per share and growth in dividends. Following the $1.00 per share capital return, which was approved by shareholders in general meeting, the options exercise price was reduced to $2.00 per share, effective from 19 July 2011. All options under the 2008 OP have either lapsed or have been exercised and none of these 2008 options remained at 30 June 2013.

The options were not transferable and did not confer any right to participate in bonus issues or cash issues of ordinary shares. The option exercise price would have been adjusted for discounted cash issues, and the number of shares issued on exercise of an option would have been adjusted for bonus issues of shares. The options did not carry voting or dividend rights and were not listed for quotation on ASX.

Subject to certain performance conditions, two million options were exercisable not earlier than 1 March 2011; two million options were exercisable not earlier than 1 March 2012; and two million options were exercisable not earlier than 1 March 2013.

The earnings per share ("EPS") performance hurdle had a starting point of 27 cents per ordinary share on 31 December 2007 and the dividend per share ("DPS") performance hurdle had a starting point of 9 cents per ordinary share on 31 December 2007, with growth measured on calendar year performance.

For all options to vest, the Company's performance must have met a minimum 10% cumulative average growth rate ("CAGR") in EPS over the 3 year vesting period for half of each tranche to vest, and must have met a minimum 10% CAGR in dividends paid over 2 out of the 4 year vesting period for the other half of each tranche to vest. For half of the options to vest, the Company's performance must have met a minimum 5% CAGR in EPS over the 3 year vesting period for one quarter of each tranche to vest, and must have met a minimum 5% CAGR in dividends paid over 2 out of the 4 year vesting period for another quarter of each tranche to vest. Below 5% CAGR in either dividends or in EPS no options vest, with a pro-rata straight line vesting scale between 5% and 10% CAGR for each performance condition. The effect of the performance hurdles on the potential vesting of the options can be illustrated as follows:

| **Number of Options able to Vest if:** | **Cumulative Annual Growth Rate ("CAGR")** | | | | |
|---|---|---|---|---|---|
| | **< 5%** | **5%** | **5% - 10%** | **= or > 10%** | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 1st Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 2nd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |
| EPS CAGR hurdle achieved | Nil | 500,000 | Sliding Scale * | 1,000,000 | Maximum 3rd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 500,000 | Sliding Scale * | 1,000,000 | |

# Subject to '2 out of 4 years' test.

* A pro rata straight line vesting scale applies.

All the options were exercisable no later than 1 March 2015. In the event of termination without cause, Mr. Burke could have exercised the options that had already vested or that vested during the following 12 month period, or he could have exercised vested options within 7 days of cessation of employment in the event of termination for cause.

During the year ended 30 June 2013, 603,863 third tranche EPS options vested and 396,137 EPS options lapsed. The value of the lapsed options as at the date of lapsing was $114,880. Although the first tranche DPS options did not meet the minimum CAGR hurdle to vest in 2011, the DPS hurdle was subject to retesting in 2012 following the clarification of the option terms approved at the General Meeting of shareholders on 29 June 2011 resulting in 1,000,000 DPS options vesting in 2012. The second tranche DPS options did not meet the minimum CAGR hurdle to vest in 2012 and were similarly subject to retesting in 2013 resulting in 1,000,000 DPS options vesting in March 2013. The third tranche DPS options met the minimum CAGR hurdle to vest in 2013 and resulted in 1,000,000 DPS options vesting in March 2013.

The terms of the grant of the options provided that should the Board determine that Mr. Burke had entered into a hedging transaction or other transaction having the effect of limiting or eliminating the economic risk associated with the options as a result of the dividend and EPS growth vesting hurdles to which they were subject, the options would have expired.

On 21 February 2013 Mr Burke exercised 2,250,036 first and second tranche vested options into ordinary shares at $2.00 per share and on 1 March 2013, Mr. Burke exercised the remaining 2,603,863 second and third tranche vested options, also at $2.00 per share. The value at exercise date of the options exercised by Mr. Burke during the 2013 year, based on the original valuation amounts, was $1,307,772.

The fair value of each option had been estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

- Expected volatility: 35%;
- Expected yield: 5.0%;
- Risk-free interest rate: 6.38%; and
- Expected life of options: 3, 4 and 5 years ended 1 March 2011, 2012 and 2013 with expiry at 1 March 2015.

The expected life of the options was based on historical data and was not necessarily indicative of exercise patterns that may have occurred. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The resulting fair values per option for Mr. Burke were $0.25, $0.27 and $0.29 for Tranches 1, 2 and 3 respectively.

These grants have been amortised over the vesting periods resulting in employee benefits expense of $Nil for the 2014 financial year (2013: credit to employee benefits expense of $235,043).

*(iii) 2012 Option Plan over ordinary shares to the entity's CEO ("2012 OP")*

On 15 November 2012, the Company's shareholders approved the 2012 OP, granting 4.5 million options over ordinary shares to the Company's CEO, Mr. G.W. Burke. The options were issued on 29 November 2012 being exercisable at $3.76 per share, with vesting subject to performance hurdles relating to growth in earnings per share and growth in dividends. Following the $0.25 reduction of share capital approved by shareholders at the Annual General Meeting on 29 November 2013, the exercise price of the options was reduced to $3.51 per share, effective from 31 December 2013.

The options are not transferable and do not confer any right to participate in bonus issues or cash issues of ordinary shares. The option exercise price is adjusted for discounted cash issues, and the number of shares issued on exercise of an option is adjusted for bonus issues of shares. The options do not carry voting or dividend rights and are not listed for quotation on ASX.

One and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2016; one and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2017; and one and a half million options are exercisable subject to certain performance conditions not earlier than 1 March 2018.

**25 SHARE BASED PAYMENT PLANS** (continued)

**(b) Share based Long Term Incentive grants** (continued)

*(iii) 2012 Option Plan over ordinary shares to the entity's CEO ("2012 OP") (continued)*

The EPS performance hurdle has a starting point of 34.4 cents per ordinary share being diluted earnings per share before material items and discontinued operations for the year ended 30 June 2012, with growth measured on financial year performance, and the DPS performance hurdle has a starting point of 22 cents per ordinary share inclusive of franking credits, being the actual dividends paid in the 2012 calendar year, with growth measured on calendar year performance.

For all options to vest, the Company's performance must meet a minimum 8% CAGR in EPS over the 3 year vesting period for half of each tranche to vest, and must meet a minimum 8% CAGR in dividends paid over 2 out of the 4 year vesting period for the other half of each tranche to vest. For half of the options to vest, the Company's performance must meet a minimum 4% CAGR in EPS over the 3 year vesting period for one quarter of each tranche to vest, and must meet a minimum 4% CAGR in dividends paid over 2 out of the 4 year vesting period for another quarter of each tranche to vest. Below 4% CAGR in either DPS or in EPS, no options vest, with a pro-rata straight line vesting scale between 4% and 8% CAGR for each performance condition.

The effect of the performance hurdles on the potential vesting of the options can be illustrated as follows:

| **Number of Options able to Vest if:** | **Cumulative Annual Growth Rate ("CAGR")** | | | | |
|---|---|---|---|---|---|
| | **< 4%** | **4%** | **4% - 8%** | **= or > 8%** | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 1st Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 2nd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |
| EPS CAGR hurdle achieved | Nil | 375,000 | Sliding Scale * | 750,000 | Maximum 3rd Tranche Options |
| Dividend CAGR hurdle achieved # | Nil | 375,000 | Sliding Scale * | 750,000 | |

# Subject to '2 out of 4 years' test.

* A pro rata straight line vesting scale applies.

All the options are exercisable no later than 1 March 2019. In the unlikely event of the termination of Mr. Burke's contract for cause, Mr. Burke may exercise vested options within one month of cessation of employment and all unvested options will lapse. In the event of termination without cause prior to December 2017, including by way of redundancy, all option terms continue as if Mr. Burke's employment had not ceased and all options will continue to vest subject to the growth hurdles being met. If Mr. Burke voluntarily terminates his employment with the Company including by way of resignation or retirement, all options terms continue for 12 months as if Mr. Burke's employment had not ceased and on that date all remaining vested and unvested options shall lapse. If Mr. Burke dies or involuntarily terminates his employment with the Company including by way of early retirement due to ill health, permanent disablement or mental incapacity, the Company retains the right to allow all option terms to continue as if Mr. Burke's employment had not ceased and all options will continue to vest subject to the growth hurdles being met.

The terms of the grant of the options provide that should the Board determine that Mr. Burke has entered into a hedging transaction or other transaction having the effect of limiting or eliminating the economic risk associated with the options as a result of the DPS and EPS growth vesting hurdles to which they are subject, the options will expire.

The fair value of each option has been estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

- Expected volatility: 35%;
- Expected yield: 6%;
- Risk-free interest rate: 2.75%; and
- Expected life of options: 3, 4 and 5 years ended 1 March 2016, 2017 and 2018 with expiry at 1 March 2019.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The resulting fair values per option for Mr. Burke were $0.73, $0.74 and $0.75 for Tranches 1, 2 and 3 respectively.

These grants have been amortised over the vesting periods resulting in an increase in employee benefits expense of $810,948 for the 2014 financial year (2013: $475,460).

*(iv) Holdings of Executive Directors and Senior Managers*

There have been no allotments to KMP under any share based payment plan during the year ended 30 June 2014 (2013: November 2012 ESP allotment to Ms. J.E. Raffe and the issue of the CEO's 2012 options described above).

The number of shares in the Company during the financial year in which the KMP of the Company have a relevant interest, including their personally-related entities, are set out in the Remuneration Report.

*(v) Number and weighted average exercise prices ("WAEP") and movements of Options & 'In Substance Options' during the year*

| | **2014 Number** | **2014 WAEP - $** | **2013 Number** | **2013 WAEP - $** |
|---|---|---|---|---|
| Outstanding at Beginning of Year | 10,712,400 | 3.43 | 11,007,436 | 2.96 |
| Granted during the Year | - | - | 5,830,000 | 3.75 |
| Forfeited/lapsed during the Year | (75,000) | 3.37 | (396,137) | 2.00 |
| Exercised during the Year | (1,106,990) | 2.22 | (5,728,899) | 1.92 |
| Expired during the year | - | - | - | - |
| Outstanding at the end of the Year | 9,530,410 | 3.47 | 10,712,400 | 3.43 |
| Exercisable at the end of the Year | 1,935,410 | 3.02 | 2,972,400 | 3.07 |

*(vi) The outstanding balance as at 30 June 2014 is represented by:*

Legacy loans over 1993 equity linked performance plan for 193,050 'in substance options' with an issue price of $2.63 each.

Executive Share Plan and Loan Facility: 4,837,360 'in substance options' over ordinary shares in the Company with issue prices ranging from $2.35 to $3.92.

Option Plan for CEO: 4,500,000 options over ordinary shares in the Company exercisable at $3.51 each with an expiry date of 1 March 2019.

| | | 2014 $ | 2013 $ |
|---|---|---|---|
| **26** | **REMUNERATION OF AUDITORS** | | |
| | The auditor of VRL is Ernst & Young (Australia). Aggregate remuneration received or due and receivable by Ernst & Young, directly or indirectly from the VRL group, in connection with - | | |
| | *Ernst & Young (Australia) -* | | |
| | An audit or review of the financial report of VRL and any other entity in the VRL group | 1,361,000 | 1,311,550 |
| | Other services in relation to VRL and any other entity in the VRL group: | | |
| | Tax | 192,967 | 159,522 |
| | Advisory / Corporate Finance | 204,755 | 40,500 |
| | Assurance related | 27,240 | 36,800 |
| | | 1,785,962 | 1,548,372 |
| | *Auditors other than Ernst & Young (Australia) -* | | |
| | An audit or review of the financial report of any other entity in the VRL group | 19,636 | 16,838 |
| | Other services in relation to any entity in the VRL group: | | |
| | Tax | 117,430 | 164,732 |
| | Advisory / Corporate Finance | 50,000 | 5,681 |
| | Assurance related | 6,914 | - |
| | | 193,980 | 187,251 |
| | | 1,979,942 | 1,735,623 |

**27 EVENTS SUBSEQUENT TO REPORTING DATE**

There have been no material transactions which significantly affect the financial or operational position of the Group since the end of the financial year.

| | | VILLAGE ROADSHOW LIMITED 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **28** | **PARENT ENTITY DISCLOSURES** | | |
| **(a)** | **Summary financial information** | | |
| | Current assets | 1,160 | 1,007 |
| | Total assets | 351,137 | 453,508 |
| | Current liabilities | 43,308 | 22,449 |
| | Total liabilities | 44,738 | 23,868 |
| | Issued capital | 219,191 | 234,345 |
| | Retained earnings | 77,803 | 187,435 |
| | Employee equity benefit reserve | 9,405 | 7,860 |
| | Total shareholders' equity | 306,399 | 429,640 |
| | Profit after tax | 23,504 | 111,895 |
| | Total comprehensive income | 23,504 | 111,895 |
| **(b)** | **Financial guarantees** | | |
| | Financial guarantees[1] | 556 | 681 |
| **(c)** | **Franking credit balance** | | |
| | Amount of franking credits available as at year-end | 1,472 | 1,495 |
| | Franking credit movements from payment of VRL's provision for tax recorded at year-end | 8,573 | 11,535 |
| | Franking debits that will arise after year-end, in relation to dividends paid or declared (as at the date of this report) | (19,825) | (8,885) |
| | Amount of franking credits (deficit) available after adjusting for the above impacts | (9,780) | 4,145 |
| **(d)** | **Contingent liabilities** | | |
| | (i) Bank guarantees for commitments of subsidiaries | 1,172 | 6,862 |
| | (ii) Several corporate guarantees for operating lease commitments | | |
| | (a) Guarantees for subsidiaries | 47,533 | 45,625 |
| | (b) Guarantees for joint operations | 12,658 | 18,652 |
| | (iii) Other corporate guarantee commitments | | |
| | (a) Guarantees in respect of subsidiaries' commitments | 6 | 10,002 |
| | | 61,369 | 81,141 |

[1] VRL has provided financial guarantees to a number of its subsidiaries, which commit the Company to make payments on behalf of these entities upon their failure to perform under the terms of the relevant contract. The significant accounting estimates and/or assumptions used in determining the fair value of these guarantees have been disclosed in Note 1(c)(xxx).

## 29 SEGMENT REPORTING[1]

| | THEME PARKS 2014 $'000 | THEME PARKS 2013 $'000 | CINEMA EXHIBITION 2014 $'000 | CINEMA EXHIBITION 2013 $'000 | FILM DISTRIBUTION 2014 $'000 | FILM DISTRIBUTION 2013 $'000 | OTHER[2] 2014 $'000 | OTHER[2] 2013 $'000 | TOTAL 2014 $'000 | TOTAL 2013 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **(a) Reporting by operating segments - continuing operations:** | | | | | | | | | | |
| Segment revenue - services | 224,280 | 194,107 | 194,699 | 189,166 | 202,805 | 192,823 | - | - | 621,784 | 576,096 |
| Segment revenue - goods | 110,254 | 102,599 | 70,196 | 65,705 | 142,378 | 165,513 | - | - | 322,828 | 333,817 |
| Total segment revenue | 334,534 | 296,706 | 264,895 | 254,871 | 345,183 | 358,336 | - | - | 944,612 | 909,913 |
| Plus: Non-segment revenue | - | - | - | - | - | - | 17,811 | 20,021 | 17,811 | 20,021 |
| Less: Inter-segment revenue | - | - | - | - | (21,392) | (19,033) | (1,861) | (2,426) | (23,253) | (21,459) |
| **Total Revenue** | | | | | | | | | **939,170** | **908,475** |
| Segment results before tax | 33,096 | 30,694 | 43,773 | 40,428 | 34,841 | 37,983 | - | - | 111,710 | 109,105 |
| Non-segment result (Corporate and Other) before tax | - | - | - | - | - | - | (32,262) | (27,098) | (32,262) | (27,098) |
| **Operating profit (loss) before tax - segment purposes** | **33,096** | **30,694** | **43,773** | **40,428** | **34,841** | **37,983** | **(32,262)** | **(27,098)** | **79,448** | **82,007** |
| Unrealised mark to market profits (losses) on interest rate and foreign currency derivatives not designated in hedging relationships | | | | | | | | | (26) | 2,637 |
| Finance restructuring costs | | | | | | | | | (2,840) | - |
| Impairment, write-downs and provisions relating to non-current assets and onerous lease | | | | | | | | | (3,003) | (14,383) |
| Profit (loss) on disposal of investments / businesses | | | | | | | | | (1,204) | 6,842 |
| Legal settlement and expenses | | | | | | | | | (4,774) | - |
| **Operating profit before tax** | | | | | | | | | **67,601** | **77,103** |
| Income tax expense | | | | | | | | | (20,989) | (26,019) |
| Non-controlling interest | | | | | | | | | (843) | (153) |
| **Total attributable profit after tax from continuing operations per the statement of comprehensive income** | | | | | | | | | **45,769** | **50,931** |
| Interest income | 176 | 297 | 474 | 502 | 1,065 | 1,068 | 2,481 | 5,596 | 4,196 | 7,463 |
| Finance costs before fair value change on derivatives | 18,466 | 22,763 | 4,407 | 4,993 | 4,678 | 6,092 | 2,709 | 1,337 | 30,260 | 35,185 |
| Finance costs - fair value change on derivatives | | | | | | | | | 26 | (2,637) |
| Finance costs - finance restructuring costs | | | | | | | | | 2,840 | - |
| Total finance costs | | | | | | | | | 33,126 | 32,548 |
| Depreciation and amortisation expense | 45,249 | 36,185 | 14,862 | 13,585 | 3,211 | 3,196 | 2,027 | 1,298 | 65,349 | 54,264 |
| Equity accounted net profit (loss) | | | | | | | | | 8,480 | 10,344 |
| Capital expenditure | 123,765 | 64,230 | 11,913 | 13,197 | 1,548 | 3,989 | 15,618 | 63,630 | 152,844 | 145,046 |

| (b) Reporting by geographic regions: | Australia 2014 $'000 | Australia 2013 $'000 | United States of America 2014 $'000 | United States of America 2013 $'000 | New Zealand 2014 $'000 | New Zealand 2013 $'000 | Other 2014 $'000 | Other 2013 $'000 | Total 2014 $'000 | Total 2013 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue - continuing operations | 865,716 | 856,633 | 40,487 | 24,559 | 29,505 | 24,082 | 3,462 | 3,201 | 939,170 | 908,475 |
| Non-current assets | 1,040,356 | 981,645 | 36,294 | 94,695 | 122 | 236 | 481 | 527 | 1,077,253 | 1,077,103 |

[1] Description of Reportable Segments:
Theme Parks: Theme park and water park operations
Cinema Exhibition: Cinema exhibition operations
Film Distribution: Film and DVD distribution operations

[2] The 'Other' column represents financial information which is not allocated to the reportable segments, and also includes Wet'n'Wild Sydney in 2013.

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**(a) Objectives for holding financial instruments**

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases and hire purchase contracts, trade receivables, trade payables and cash and short-term deposits.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also enters into derivative transactions, including principally interest rate swaps and collars (caps and floors). The purpose is to manage the interest rate risks arising from the Group's sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk, and include the fair value movements from the financial instruments. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through comparing projected debt levels against total committed facilities. The Board reviews and agrees policies for managing each of these risks, which are summarised below. Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in Note 1.

**(b) Risk exposures and responses**

***Cash flow interest rate risk***

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a variable interest rate. The level of debt is disclosed in Note 16.

The primary objectives of interest rate management for the Group are to ensure that:

- interest expense does not adversely impact the Group's ability to meet taxation, dividend and other operating obligations as they arise;
- earnings are not subjected to wide fluctuations caused by fluctuating interest commitments; and
- covenants agreed with bankers are not breached.

Within the above constraints and targets, the Group's objective in managing interest rate risk is to maintain the stability of interest rate expense whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements. At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian and USA variable interest rate risk that were not designated in cash flow hedges:

| | CONSOLIDATED | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Financial assets: Cash and cash equivalents | 130,382 | 146,909 |
| Financial Liabilities: Secured and unsecured borrowings | 238,368 | 197,487 |
| Net exposure | 107,986 | 50,578 |

The Group enters into interest rate swap and collar agreements ("interest rate derivatives") that are used to convert the variable interest rates attached to various of its specific facilities into fixed interest rates, or to limit interest rate exposure. The interest rate derivatives are entered into with the objective of ensuring that earnings are not subject to wide fluctuations caused by fluctuating interest commitments and ensuring compliance with loan covenants. Interest rate risk will not generally be hedged unless the underlying debt facility draw down exceeds A$20 million. For any debt exceeding this level, which is outstanding for more than three months from the original drawdown date, interest rate exposure will be hedged for a minimum of 50% of the outstanding debt balance for a minimum of 12 months or until termination of the loan, whichever is sooner.

At reporting date, various entities within the Group had entered into interest rate derivatives covering debts totalling $242.5 million (2013: $221.0 million). These interest rate derivatives covered approximately 50% (2013: 53%) of total borrowings of the Group as at reporting date. The majority (by value) of the interest rate derivatives mature in 2014 to 2015 (2013: 2013 to 2015), and have been designated in hedging relationships under Australian Accounting Standards.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. Sensitivity analysis for interest rate risk exposures has been calculated by estimating the impacts in value and timing based on financial models. The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. A sensitivity of 100 basis points has been selected as this is deemed to be reasonably possible given the current level of both short term and long term Australian and USA interest rates.

At 30 June 2014 and 30 June 2013, if interest rates had moved as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| | Post tax profit Higher / (Lower) | | Equity Higher / (Lower) | |
|---|---|---|---|---|
| Sensitivity analysis | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| CONSOLIDATED | | | | |
| If interest rates were 100 basis points higher with all other variables held constant | (2,495) | (1,444) | 2,746 | 1,739 |
| If interest rates were 100 basis points lower with all other variables held constant | 2,495 | 1,371 | (2,775) | (1,765) |

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movements in equity are due to an increase/decrease in the fair value of derivative instruments designated as cash flow hedges. The sensitivities for each year are impacted by cash, debt and derivative balances, as well as interest rates.

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(b) Risk exposures and responses** (continued)

***Foreign currency risk***

The Group has transactional foreign currency exposures, which arise from sales or purchases by the relevant division in currencies other than the division's functional currency. In general, the Group requires all of its divisions to use forward currency contracts to eliminate the foreign currency exposure on any individual transactions in excess of A$0.5 million, which are generally required to be taken out immediately when a firm commitment has occurred. The forward currency contracts must be in the same currency as the hedged item, and it is the Group's policy not to enter into forward contracts until a firm commitment is in place.

In addition, the Group uses forward currency contracts to eliminate the foreign currency exposure on part of the Group's estimated foreign currency payments, which are regularly updated to ensure a rolling forward cover position.

It is the Group's policy to negotiate the terms of the foreign currency derivatives to match the terms of the underlying foreign currency exposures as closely as possible, to maximise the effectiveness of the derivatives. As at 30 June 2014 and 30 June 2013, the Group had hedged the majority (by value) of foreign currency purchases that were firm commitments. The following sensitivity analysis is based on the foreign currency risk exposures in existence at reporting date. A sensitivity of 10% has been selected as this is deemed to be reasonably possible given the current level of the United States Dollar and other relevant exchange rates.

At 30 June 2014 and 30 June 2013, if foreign exchange rates had moved as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Sensitivity analysis | Post tax profit Higher / (Lower) 2014 $'000 | 2013 $'000 | Equity Higher / (Lower) 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| CONSOLIDATED | | | | |
| If foreign exchange rates were 10 per cent higher with all other variables held constant | - | - | (2,573) | (2,487) |
| If foreign exchange rates were 10 per cent lower with all other variables held constant | - | - | 3,145 | 3,040 |

The movement in equity is due to an increase/decrease in the fair value of the derivative instruments, which are all designated as cash flow hedges. The sensitivities for each year are impacted by the derivative balances and exchange rates. There is no movement in profit in this foreign exchange rate sensitivity analysis due to the fact that movements in the unhedged foreign currency amounts only impact asset and liability balances.

***Commodity price risk***

The Group's exposure to price risk is minimal.

***Credit risk***

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Credit risk in trade receivables is managed in the following ways:

- payment terms are generally 30 to 90 days; and
- a risk assessment process is used for customers over $50,000.

The Group's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset, other than derivatives, is the carrying amount of those assets as recognised in the statement of financial position.

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. However, the Group ensures that it only enters into contracts with creditworthy institutions, as set out in the relevant Group policy.

*Concentrations of credit risk:*

The Group minimises concentrations of credit risk in relation to trade accounts receivable by undertaking transactions with a large number of customers within the specified industries. The customers are mainly concentrated in Australia.

***Liquidity Risk***

Liquidity risk management is concerned with ensuring that there are sufficient funds available to meet the Group's commitments in a timely manner. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

Liquidity risk is measured by comparing projected net debt levels for the next 12 months against total committed facilities on a rolling monthly basis and includes monthly cash flow forecasts from the Group's operating divisions. Projected net debt levels take into account:

- existing debt;
- future operating and financing cash flows;
- approved capital expenditure;
- approved investment expenditure for new sites; and
- dividend distributions and income tax payments.

The risk implied from the values shown in the following table reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered in the Group's overall liquidity risk. To ensure that the maturity of funding facilities is not concentrated in one period, the Group will generally ensure that no more than 30% of its committed facilities mature within any 12 month period. As at 30 June 2014, 5% (2013: 9%) of the Group's debt will mature in less than one year.

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(b) Risk exposures and responses** (continued)

***Liquidity risk*** *(continued)*

To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting that reflects the expectations of management of settlement of financial assets and liabilities.

The following table reflects all contractually fixed payables and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments as at 30 June 2014. For derivative financial instruments and other obligations, the contractual undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2014.

| | 1 YEAR OR LESS | | OVER 1 YEAR TO 5 YEARS | | MORE THAN 5 YEARS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *(i) Financial assets* | | | | | | | | |
| Cash | 130,382 | 146,909 | - | - | - | - | 130,382 | 146,909 |
| Receivables and other advances | 107,736 | 112,565 | 14,071 | 15,616 | - | - | 121,807 | 128,181 |
| Derivatives | 39,470 | 50,128 | 11,637 | 2,413 | - | - | 51,107 | 52,541 |
| Security deposits | - | - | 17 | - | 32 | 1,425 | 49 | 1,425 |
| Total financial assets | 277,588 | 309,602 | 25,725 | 18,029 | 32 | 1,425 | 303,345 | 329,056 |
| *(ii) Financial liabilities* | | | | | | | | |
| Trade and other payables | 195,958 | 240,941 | 46,197 | 51,232 | - | - | 242,155 | 292,173 |
| Secured and unsecured borrowings | 50,418 | 36,938 | 549,928 | 399,530 | - | 35,230 | 600,346 | 471,698 |
| Derivatives | 40,259 | 51,274 | 12,434 | 3,892 | - | - | 52,693 | 55,166 |
| Total financial liabilities | 286,635 | 329,153 | 608,559 | 454,654 | - | 35,230 | 895,194 | 819,037 |
| Net maturity | (9,047) | (19,551) | (582,834) | (436,625) | 32 | (33,805) | (591,849) | (489,981) |

Liquidity is managed daily through the use of available cash flow and committed facilities. Refer to Note 6(c) for details of available financing facilities, which shows that there were undrawn finance facility amounts of $197.5 million as at 30 June 2014 (2013: $148.6 million).

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(c) Terms, conditions and accounting policies**

The Group's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument are as follows:

***Recognised Financial Instruments***

*(i) Financial assets*

**Receivables - trade debtors:**
Trade debtors are non-interest bearing and are carried at nominal amounts due less any allowance for doubtful debts. An allowance for doubtful debts is recognised when there is objective evidence that the Group will not be able to collect the debt. Credit sales are normally settled on 30-90 day terms.

**Receivables - associates and other advances:**
Amounts (other than trade debts) receivable from associated entities and for other advances are carried at either the nominal amounts due or the amounts initially recorded as recoverable. Interest, when charged, is recognised in profit or loss on an accrual basis, and provided against when not probable of recovery. There are no fixed settlement terms for loans to associated and other entities.

**Unsecured advances:**
Unsecured advances are shown at cost. Interest, when charged, is recognised in profit or loss on an accrual basis. There are no fixed settlement terms.

**Available for sale investments:**
Available for sale investments are shown at cost.

*(ii) Financial liabilities*

**Trade and sundry creditors:**
Creditors are recognised at amounts to be paid in the future for goods and services already received, whether or not billed to the Group. They are non-interest bearing and are normally settled on 30-90 day terms.

**Accounts payable - associated and other entities:**
Amounts owing to associated and other entities are carried at the principal amount. Interest, when charged, is recognised in profit or loss on an accruals basis. There are no fixed settlement terms.

**Secured and unsecured borrowings:**
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised. Interest is recognised in profit or loss on an accrual basis. Bank loans are repayable either monthly or at other intervals, which in some cases are dependant on relevant financial ratios, or at expiry, with terms ranging from less than one year to greater than five years. While interest is charged either at the bank's floating rate or at a contracted rate above the Australian dollar BBSY rate, certain borrowings are subject to interest rate swaps or collars (refer below).

Details of security over bank loans is set out in Note 16.

**Finance lease liabilities:**
Finance lease liabilities are accounted for in accordance with AASB 117: *Leases*. As at reporting date, the Group had no finance leases.

**Interest rate swaps:**
At reporting date, the Group had a number of interest rate swap agreements in place. Such agreements are being used to hedge the cash flow interest rate risk of various debt obligations with a floating interest rate.

**Interest rate collars:**
At reporting date, the Group had no remaining interest rate collar (floor and cap) agreements in place. These derivatives were being used to assist in hedging the cash flow interest rate risk of various debt obligations with a floating interest rate.

The interest rate swaps have the same critical terms as the underlying debt obligations. The interest rate collars have been based on the underlying debt obligations, and closely matched the terms of those obligations.

*(iii) Equity*

**Ordinary shares:**
From 1 July 1998, ordinary share capital has been increased based on the proceeds received from shares issued (less direct share issue costs), and decreased based on the buy-back cost (including direct buy-back costs). Prior to that date, ordinary share capital was recognised at the par value of the amount paid up, and any excess between the par value and the issue price was recorded in the share premium reserve. Details of shares issued and the terms and conditions of options outstanding over ordinary shares at reporting date are set out in Note 19.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
For the year ended 30 June 2014

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(d) Fair values**

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements, excluding any classified under discontinued operations.

| | TOTAL CARRYING AMOUNT AS PER CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | AGGREGATE NET FAIR VALUE | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **CONSOLIDATED** | $'000 | $'000 | $'000 | $'000 |
| *Financial assets:* | | | | |
| Cash | 130,382 | 146,909 | 130,382 | 146,909 |
| Trade and other receivables | 121,807 | 126,830 | 121,807 | 126,830 |
| Unsecured advances | - | 1,351 | - | 1,351 |
| Available for sale investments | 483 | 520 | 483 | 520 |
| Derivatives | 254 | 5,035 | 254 | 5,035 |
| Security Deposits | 49 | 1,425 | 49 | 1,425 |
| Total financial assets | 252,975 | 282,070 | 252,975 | 282,070 |
| *Financial liabilities:* | | | | |
| Trade and other payables | 242,155 | 292,173 | 242,155 | 292,173 |
| Secured and unsecured borrowings | 480,868 | 418,487 | 471,269 | 408,010 |
| Derivatives | 1,957 | 7,588 | 1,957 | 7,588 |
| Total financial liabilities | 724,980 | 718,248 | 715,381 | 707,771 |

The following methods and assumptions are used to determine the fair values of financial assets and liabilities:

***Cash, cash equivalents and short-term deposits:***

The carrying amount approximates fair value because of short-term maturity.

***Receivables and accounts payable - current:***

The carrying amount approximates fair value because of short-term maturity.

***Receivables - non current:***

The fair values of non current receivables are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of arrangements.

***Borrowings - current:***

The carrying amount approximates fair value because of short-term maturity.

***Borrowings - non current:***

The net fair values of the secured and unsecured borrowings are determined based on the weighted average market-based interest rates that are applicable to the borrowings.

The Group uses the following methods in calculating or estimating the fair value of a financial instrument:

Level 1: Fair value is calculated using quoted prices in active markets.

Level 2: Fair value is estimated using inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The fair value of the financial instruments as well as methods used to estimate the fair value are summarised in the table below.

Level 3: Fair value is estimated using inputs for the asset that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Valuation technique- market observable inputs (Level 2) | Total | Valuation technique- market observable inputs (Level 2) | Total |
| | $'000 | $'000 | $'000 | $'000 |
| *Financial assets:* | | | | |
| Derivatives | 254 | 254 | 5,035 | 5,035 |
| Total | 254 | 254 | 5,035 | 5,035 |
| *Financial liabilities:* | | | | |
| Secured and unsecured borrowings | 471,269 | 471,269 | 408,010 | 408,010 |
| Derivatives | 1,957 | 1,957 | 7,588 | 7,588 |
| Total | 473,226 | 473,226 | 415,598 | 415,598 |

The net fair values of the financial instruments are determined using valuation techniques that utilise data from observable and unobservable market data. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived. As a result, these derivatives have been classified based on the observable market inputs as Level 2.

The net fair values of the secured and unsecured borrowings are determined based on the weighted average market-based interest rates that are applicable to the borrowings. As a result, these borrowings have been classified based on the observable market inputs as Level 2.

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(e) Derivative financial instruments**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| *Current assets:* | | |
| Forward currency contracts - cash flow hedges | 254 | 2,835 |
| Interest rate caps and collars - held for trading | - | 2,147 |
| | 254 | 4,982 |
| *Non-current assets:* | | |
| Forward currency contracts - cash flow hedges | - | 53 |
| *Current liabilities:* | | |
| Interest rate swap contracts - held for trading | - | 3,280 |
| Interest rate swap contracts - cash flow hedges | 902 | 645 |
| Interest rate collars - held for trading | - | 2,128 |
| Forward currency contracts - cash flow hedges | 514 | 112 |
| | 1,416 | 6,165 |
| *Non-current liabilities:* | | |
| Interest rate swap contracts - cash flow hedges | 528 | 57 |
| Interest rate collars - held for trading | - | 1,366 |
| Forward currency contracts - cash flow hedges | 13 | - |
| | 541 | 1,423 |

*Instruments used by the Group*

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps and collars (floors and caps) to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Refer Note 1(c)(ix).

The Group enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") agreements, which allow for the netting of relevant transactions which are to be settled at the same time, which does not occur regularly in practice. In certain situations, such as a default, all outstanding transactions under the relevant ISDA are able to be terminated, and a net amount for settlement determined. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position, due to no default having occurred.

*(i) Forward currency contracts - cash flow hedges*

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction which could affect profit or loss. Where a hedge meets the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The Group has the following foreign currency contracts designated as cash flow hedges at 30 June 2014 and 30 June 2013:

| | Notional Amounts AUD | | Average exchange rate | |
|---|---|---|---|---|
| | 2014<br>$'000 | 2013<br>$'000 | 2014 | 2013 |
| Consolidated: | | | | |
| *USD hedges* | (270) | 2,490 | 0.9182 | 0.9882 |
| *GBP hedges* | - | 31 | - | 0.6463 |
| *CAD hedges* | 8 | 84 | 1.0155 | 1.0218 |
| *NZD hedges* | (11) | - | 1.0847 | - |
| *EUR hedges* | - | 171 | - | 0.7604 |

*(ii) Interest rate swaps - cash flow hedges*

In order to protect against rising interest rates, the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. At reporting date, the principal amounts and period of expiry of the interest rate swap contracts were as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| 0-1 years | (902) | (645) |
| 1-2 years | (528) | (57) |
| | (1,430) | (702) |

**30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(e) Derivative financial instruments** (continued)

*(iii) Interest rate swaps - held for trading*

Amounts relating to interest rate swap contracts that have not been designated as hedges are recognised in profit or loss and disclosed as held for trading. At reporting date, the principal amounts and period of expiry of the interest rate swap contracts classified as held for trading were as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| 0-1 years | - | (3,280) |

*(iv) Interest rate collars - held for trading*

All of the Group's Interest rate collars (floors and caps) are considered to be ineffective and are therefore classified as held for trading, with all amounts being recognised in profit or loss. At reporting date, the principal amounts and period of expiry of the interest rate collars were as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| 0-1 years | - | 19 |
| 1-2 years | - | (1,366) |
| | - | (1,347) |

The Group's interest rate swaps generally require settlement of net interest receivable or payable, and the settlement dates generally coincide with the dates on which interest is payable on the underlying debt. The swaps are measured at fair value and, in respect of derivatives which are classified as effective, all gains and losses attributable to the hedged risk are taken directly to equity and re-classified into profit or loss when the interest expense is recognised.

**31 NON-KEY MANAGEMENT PERSONNEL RELATED PARTY TRANSACTIONS**

The following related party transactions occurred during the financial year and were conducted on normal commercial terms and conditions unless otherwise stated:

**(a) Immediate Parent Entity**

The Company's immediate parent entity is Village Roadshow Corporation Pty. Limited which is incorporated in Australia. The Company's ultimate parent entity is Positive Investments Pty. Limited which is incorporated in Australia. Refer also to the Directors' Report disclosures for relevant interests of Directors in relation to the 100% ownership of the immediate and ultimate parent entities by Messrs. R.G. Kirby, J.R. Kirby & G.W. Burke.

**(b) Associated Entities:**

*Revenues and expenses*

The following transactions with associated entities were included in the determination of the operating profit before tax for the year:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Management & service fee revenue - associates | 856 | 1,116 |
| Management & service fee revenue - other associated entities | 133 | 507 |
| Film hire and other film expenses (paid by the VRL group to entities in the Village Roadshow Entertainment Group Limited group) | 21,805 | 18,797 |
| Provision for diminution - investments in associates (included in material items of income and expense in Reconciliation of Results contained in Directors' Report) | - | 4,195 |

*Receivables and payables*

Any amounts receivable from, or payable to, associates have been separately disclosed in Notes 7 and 15.

**VILLAGE ROADSHOW LIMITED**
**ABN 43 010 672 054**
**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Village Roadshow Limited, I state that:

(1) In the opinion of the Directors -

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and *Corporations Regulations 2001;* and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board, as disclosed in Note 1(b)(i).

(2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2014.

On behalf of the Board

G.W. Burke
Director

Melbourne, 19 September 2014

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# Independent auditor's report to the members of Village Roadshow Limited

## *Report on the financial report*

We have audited the accompanying financial report of Village Roadshow Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

## *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

## *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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## Opinion

In our opinion:

a. the financial report of Village Roadshow Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

## *Report on the remuneration report*

We have audited the Remuneration Report included on pages 11 to 25 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Village Roadshow Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Shewring
Partner
Melbourne
19 September 2014