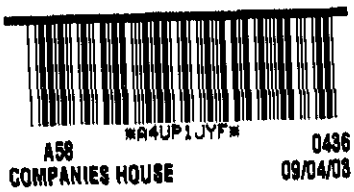
VILLAGE THEATRES 3 LIMITED

Report and Financial Statements

5 July 2001

ERNST & YOUNG



Village Theatres 3 Limited

Registered No. 3819921

DIRECTORS
C J Gallaher
P E Foo
C M Aubrey
P F Garner
S C Kappen

SECRETARIES
C J Bleasdale
S L Driscoll
P S Leggo

AUDITORS
Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

REGISTERED OFFICE
Haydon House
14 Haydon Place
Guildford
Surrey GU1 4LL

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DIRECTORS' REPORT

The directors present their report and financial statements for the period ended 5 July 2001.

RESULTS AND DIVIDENDS

The loss for the period after taxation amounted to £828,903 (30 June 2000 - £679,086). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the operation of multiscreen cinemas in the United Kingdom.

DIRECTORS AND THEIR INTERESTS

The directors during the period were as follows:

C J Gallaher
P E Foo
G W Burke (resigned 28 June 2002)
G Livery (appointed 21 April 2001, resigned 28 June 2002)

Subsequent to the period end, C M Aubrey, P F Garner and S C Kappen were appointed as directors on 28 June 2002.

There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 8 September 2000. Accordingly, Ernst & Young LLP will be deemed to be reappointed as auditors.

On behalf of the board

C M Aubrey

Director

2 April 2003

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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REPORT OF THE INDEPENDENT AUDITORS
to the members of Village Theatres 3 Limited

We have audited the company's financial statements for the period ended 5 July 2001 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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REPORT OF THE INDEPENDENT AUDITORS
to the members of Village Theatres 3 Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 5 July 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

4 April 2003

PROFIT AND LOSS ACCOUNT
for the period ended 5 July 2001

	Notes	*Period ended 5 July 2001* £	*Period ended 30 June 2000* £
TURNOVER	3	5,465,906	711,346
Cost of sales		(2,959,698)	(457,500)
Gross profit		2,506,208	253,846
Administrative expenses		(3,566,804)	(945,691)
OPERATING LOSS		(1,060,596)	(691,845)
Interest receivable		23,408	12,759
Interest payable		(13,594)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(1,050,782)	(679,086)
Tax credit on loss on ordinary activities	6	221,879	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	12	(828,903)	(679,086)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £828,903 for the period ended 5 July 2001 (30 June 2000 - £679,086).

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BALANCE SHEET
at 5 July 2001

	Notes	*5 July 2001* £	*30 June 2000* £
FIXED ASSETS			
Tangible assets	7	7,389,449	-
CURRENT ASSETS			
Stocks	8	50,103	53,161
Debtors	9	793,590	68,095
Cash at bank and in hand		3,300,091	357,747
		4,143,784	479,003
CREDITORS: amounts falling due within one year	10	(13,041,220)	(1,158,087)
NET CURRENT LIABILITIES		(8,897,436)	(679,084)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,507,987)	(679,084)
CAPITAL AND RESERVES			
Called up share capital	11	2	2
Profit and loss account	12	(1,507,989)	(679,086)
EQUITY SHAREHOLDERS' DEFICIT	12	(1,507,987)	(679,084)

Director

2 April 2003

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NOTES TO THE FINANCIAL STATEMENTS
at 5 July 2001

1. FUNDAMENTAL ACCOUNTING CONCEPT

The financial statements have been prepared on a going concern basis on the assumption that other group undertakings will continue to provide adequate financial support to the company to enable it to meet its liabilities as and when they fall due. The directors have no reason to believe that this financial support will not continue in the future and consider it appropriate to adopt a going concern basis. However, should support not be made available to the company, the going concern basis used in preparing the company's financial statements would be invalid and adjustments would have to be made to reduce the value of assets to their realisable amount, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets.

2. ACCOUNTING POLICIES

Accounting period

The company prepares financial statements for either 52 or 53 week periods ending within one week of 30 June.

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 (revised) not to prepare a statement of cash flows, as it is a wholly owned subsidiary of another undertaking, whose consolidated financial statements, in which the company is included, are publicly available.

Stocks

Stocks which comprise sundry supplies are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at the rate 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 balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

Certain personnel who work at the cinemas operated by Village Theatres 3 Ltd ("VT3") are through their employment by Warner Village Exhibition Ltd ("WVE"), a related undertaking, members of the Time Warner UK Pension Plan, which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss financial statements so as to spread the cost of pension over the employees' working lives. Variations in pension costs which are identified as a result of actuarial valuations are amortised over the average expected working lives of employees in proportion to their expected payroll costs.

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NOTES TO THE FINANCIAL STATEMENTS
at 5 July 2001

3. TURNOVER

Turnover, from continuing activities, comprises revenue from theatre admissions and sundry sales, excluding VAT, and all arises with the UK.

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

		Period ended 5 July 2001 £	*Period ended 30 June 2000* £
Auditors' remuneration		17,000	2,000
Operating lease rentals	- plant and machinery	257,252	35,567
	- land and buildings	1,138,516	206,290
Depreciation		2,199,819	-

(b) The directors did not receive any emoluments for their services to the company during the period (30 June 2000 - £nil).

5. STAFF COSTS

	Period ended 5 July 2001 £	*Period ended 30 June 2000* £
Wages and salaries	853,917	157,989
Social security costs	45,469	8,974
Other pension costs	14,267	2,127
	913,653	169,090

The average monthly number of employees during the period was as follows:

	Period ended 5 July 2001 No.	*Period ended 30 June 2000* No.
Office and management	9	3
Theatre staff	107	22
	116	25

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6. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge to UK corporation tax based on the loss for the period (30 June 2000 - £nil).

The credit in the profit and loss account for the period ended 5 July 2001, amounting to £221,879, is made up as follows:

	£
Consortium relief surrender re current period loss	118,640
Consortium relief surrender re prior period loss	103,239
	221,879

7. TANGIBLE FIXED ASSETS

	Short leasehold land and buildings	*Equipment*	*Total*
	£	£	£
Cost:			
At 1 July 2000	-	-	-
Additions during the period	8,124,459	1,464,809	9,589,268
At 5 July 2001	8,124,459	1,464,809	9,589,268
Depreciation:			
At 1 July 2000	-	-	-
Provided during the period	2,035,814	164,005	2,199,819
At 5 July 2001	2,035,814	164,005	2,199,819
Net book value:			
At 5 July 2001	6,088,645	1,300,804	7,389,449
At 1 July 2000	-	-	-

8. STOCKS

	5 July 2001	*30 June 2000*
	£	£
Stocks held for resale	50,103	53,161

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NOTES TO THE FINANCIAL STATEMENTS
at 5 July 2001

9. DEBTORS

	5 July 2001 £	*30 June 2000* £
Trade debtors	29,290	2,038
Amounts owed by group undertakings	2	2
Prepayments and accrued income	387,861	14,063
Other debtors	154,558	51,992
Consortium relief receivable	221,879	-
	793,590	68,095

10. CREDITORS: amounts falling due within one year

	5 July 2001 £	*30 June 2000* £
Trade creditors	-	10,670
Amount owed to group undertakings	8,799,029	448,693
Amounts owed to related undertakings	645,540	160,724
Other creditors	2,044,251	15,422
Accruals	1,552,400	522,578
	13,041,220	1,158,087

11. SHARE CAPITAL

	5 July 2001 £	*30 June 2000* £
Authorised		
Ordinary shares of £1 each	1,000	1,000

	5 July 2001 No.	*30 June 2000* £
Allotted, called up and fully paid		
Ordinary shares of £1 each	2	2

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12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	*Profit and loss account* £	*Total* £
Share capital issued on incorporation	2	-	2
Loss for the period	-	(679,086)	(679,086)
At 1 July 2000	2	(679,086)	(679,084)
Loss for the period	-	(828,903)	(828,903)
At 5 July 2001	2	(1,507,989)	(1,507,987)

13. FINANCIAL COMMITMENTS

Leasing Commitments

The company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		*Plant and machinery*	
	5 July 2001 £	*30 June 2000* £	*5 July 2001* £	*30 June 2000* £
In over five years	1,480,000	1,480,000	250,000	250,000

14. PENSIONS

Village Theatres 3 Limited makes contributions on behalf of staff seconded from Warner Village Exhibition Limited to the Time Warner UK Pension Plan which is a defined benefit final salary scheme. The scheme is self-administered and funded to cover past and future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date. The scheme is subject to independent valuations at least every three years, on the basis of which a qualified actuary certifies the rate of the employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are sufficient to fund the benefits payable under the scheme. The assets of the scheme are held in separately administered funds.

The last full actuarial valuation for the Time Warner UK Pension Plan was prepared as at 6 April 1999. The valuation showed that the assets at 6 April 1999 were adequate to secure 101% of the benefits payable to pensioners, members who had left service with deferred benefits and the benefits which contributing members had earned in respect of pensionable service to and pensionable salary at that date. As a result of this valuation, contributions from employees remain unchanged and employers' contributions were set at rates between 12.3% and 20.8% of pensionable salary depending on the division of the group the pension scheme member is employed by.

The next actuarial valuation of the Time Warner UK Pension Plan is due as at 6 April 2002, the outcome of which, when available, will indicate the level of contributions to be paid by the employing companies with effect from that date onwards.

FRS 17 requires that the pension scheme's underlying assets and liabilities be allocated to the entities sponsoring the scheme. This allocation could not be done on a consistent and reasonable basis beyond a sub-group level for this scheme. Warner Village Exhibition Limited was not identified as one of these sub-groups. As a result, the defined benefit scheme has been accounted for as a defined contribution scheme in these financial statements. The sub-group in which the employees of the company have been included is Warner Bros. Theatres (Holdings) Limited.

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15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with fellow group undertakings as it is a subsidiary of another undertaking which produces publicly available consolidated financial statements.

16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The directors consider the ultimate parent undertaking and controlling party to be Village Roadshow Limited, a company incorporated in Australia.

The parent undertaking of the group of undertakings for which group financial statements are drawn up and of which the company is a member is Village Roadshow Limited. Copies of the financial statements can be obtained from the Secretary, Village Roadshow Limited, Warner Roadshow Studios, Pacific Highway, Oxenford, Queensland, 4210, Australia.

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