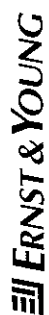


Village Theatres 3 Limited

Report and Financial Statements

1 July 2004

 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

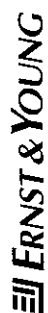
C J Bleasdale
S L Driscoll
P S Leggo

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered office

Haydon House
14 Haydon Place
Guildford
Surrey
GU1 4LL

 ERNST & YOUNG

Directors' report

The directors present their report and financial statements for the period ended 1 July 2004.

Results and dividends

The profit for the period after taxation amounted to £5,851,558 (2003 - loss £1,968,936). 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 multi-screen cinemas in the United Kingdom.

The company performed as expected during the year, and also made gains of £3,807,695 as a result of loan forgiveness and £1,401,850 as a result of licence fee forgiveness.

Directors and their interests

The directors during the period were as follows:

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

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

Subsequent events

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

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 2001. Accordingly, Ernst & Young LLP will be deemed to be reappointed as auditors.

By order of the board



P Garner
Director

14. December 2005

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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; 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.

Independent auditor's report

to the members of Village Theatres 3 Limited

We have audited the company's financial statements for the period ended 1 July 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21. 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.

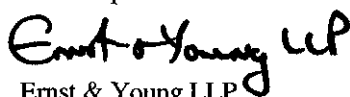
Basis of audit opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 1 July 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

Registered Auditor

London

19 December 2005

Profit and loss account

for the period ended 1 July 2004

		<i>Period ended 1 July 2004 £</i>	<i>Period ended 3 July 2003 £</i>
	<i>Notes</i>		
Turnover	3	9,655,367	12,306,908
Cost of sales		(4,641,081)	(6,321,847)
Gross profit		5,014,286	5,985,061
Administrative expenses		(4,414,375)	(6,145,006)
Impairment provision –fixed assets		-	(2,000,000)
Loan forgiveness		3,807,695	-
Licence fee forgiveness		1,401,850	-
Operating profit/(loss)	4	5,809,456	(2,159,945)
Interest receivable		28,456	61,357
Interest payable	6	-	(53,469)
Profit/(loss) on ordinary activities before taxation		5,851,558	(2,152,057)
Tax credit on loss on ordinary activities	7	-	183,121
Profit/(loss) on ordinary activities for the period	16	5,851,558	(1,968,936)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £5,851,558 for the period ended 1 July 2004 (3 July 2003 - loss £1,968,936).



Balance sheet

at 1 July 2004

		1 July 2004	3 July 2003
	Notes	£	£
Non-current assets			
Investments	12	2	-
Tangible assets	8	3,314,908	3,712,263
Total non-current assets		<u>3,314,910</u>	<u>3,712,263</u>
Current assets			
Stocks	9	32,733	48,757
Debtors – due within one year	10	4,530,606	1,183,296
– due after more than one year	11	5,304,791	344,019
Cash at bank and in hand		37,053	76,134
		<u>9,905,183</u>	<u>1,652,206</u>
Creditors: amounts falling due within one year	13	(10,311,409)	(6,929,700)
Net current liabilities		<u>(406,226)</u>	<u>(5,277,494)</u>
Total assets less current liabilities		<u>2,908,684</u>	<u>(1,565,231)</u>
Creditors: amounts falling due after more than one year	14	(2,517,566)	(3,895,209)
Total assets less current liabilities		<u>391,118</u>	<u>(5,460,440)</u>
Capital and reserves			
Called up share capital	15	2	2
Profit and loss account	16	391,116	(5,460,442)
Equity shareholders' funds/(deficit)	16	<u>391,118</u>	<u>(5,460,440)</u>

P. F. Crame

P Garner
Director

14. December 2005

Notes to the financial statements

at 1 July 2004

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.

Tangible fixed assets

Depreciation is provided to write off the cost of tangible fixed assets over their estimated useful lives as follows:

Leasehold land and buildings	-	over 25 years (or the length of the lease, if shorter)
Computer and other equipment	-	5-10 years

The carrying values of tangible fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

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

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 1 July 2004

2. Accounting policies (continued)

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.

Pensions

Certain personnel who worked at the cinemas operated by the company were, through their employment by Warner Village Exhibition Limited (an associated company), members of the Time Warner UK Pension Plan, which required contributions to be made to a separately administered fund. Contributions to the fund were charged to the profit and loss account so as to spread the cost of pensions over the employees working lives. Variations in pension costs, which were identified as a result of actuarial valuations were amortised over the average expected working lives of employees in proportion to their expected payroll costs.

The company made 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 staff left the plan as active members on 30 April 2003.

Effective from 12 May 2003, the majority of employees seconded from Warner Village Exhibition Limited transferred employment to the Vue Entertainment group (non-associated) as part of a restructuring.

Lease commitments

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

3. Turnover

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

4. Operating profit/(loss)

(a) This is stated after charging:

	Period ended 1 July 2004 £	Period ended 3 July 2003 £
Auditors' remuneration	113,185	14,157
Operating lease rentals	653,956	312,870
- plant and machinery		
- land and buildings	1,820,470	2,688,285
Depreciation	311,951	408,914
Loss on sale of cinema site	85,405	-

(b) The directors did not receive any emoluments for their services to the company during the period (2003 - £nil).

Notes to the financial statements

at 1 July 2004

5. Staff costs

	<i>Period ended 1 July 2004 £</i>	<i>Period ended 3 July 2003 £</i>
Wages and salaries	-	1,243,926
Social security costs	-	60,520
Other pension costs	-	19,018
	-	1,323,464

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

	<i>Period ended 1 July 2004 No.</i>	<i>Period ended 3 July 2003 No.</i>
Office and management	-	14
Theatre staff	-	173
	-	187

Effective from 12 May 2003, the majority of employees seconded from Warner Village Exhibition Limited (an associated company) transferred employment to the Vue Entertainment group (non-associated) as part of a restructuring. The company was re-charged staff-related costs by the Vue Entertainment group, which totalled £1,052,274 in the year ended 1 July 2004.

6. Interest payable

	<i>Period ended 1 July 2004 £</i>	<i>Period ended 3 July 2003 £</i>
Bank loans and overdrafts	-	6,467
Group interest payable	-	47,002
	-	53,469

Notes to the financial statements

at 1 July 2004

7. Tax on loss on ordinary activities

(a) Analysis of credit in period:

	<i>Period ended 1 July 2004 £</i>	<i>Period ended 3 July 2003 £</i>
<i>Current tax</i>		
UK corporation tax on the profit/(loss) for the period	-	-
Other prior period adjustments – consortium relief	-	(183,121)
Total current tax (note 7(b))	-	(183,121)

(b) Factors affecting tax credit for the period:

The standard rate of current tax for the period, based on the UK standard rate of corporation tax is 30% (2003 - 30%). A reconciliation of the current tax charge for the period to the tax on profit at the standard rate is set out below:

	<i>Period ended 1 July 2004 £</i>	<i>Period ended 3 July 2003 £</i>
Profit/(loss) on ordinary activities before tax	5,851,558	(2,152,057)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	1,755,467	(645,617)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	55,155	150
Depreciation in excess of capital allowances	72,010	722,674
Utilisation of losses brought forward	(169,456)	(74,841)
Group relief received for nil consideration	(570,867)	(2,366)
Prior period adjustments	-	(183,121)
Loan forgiveness	(1,142,309)	-
Current tax for the period (note 7(a))	-	(183,121)

Notes to the financial statements

at 1 July 2004

7. Tax on loss on ordinary activities (continued)

(c) Factors that may affect future tax charges

The company has not provided for deferred tax assets on other timing differences during the period. By agreement with other companies in the group, the company has the obligation to surrender tax losses for nil consideration and is entitled to claim group relief for nil consideration. Therefore, no deferred tax asset is recognised.

The estimated value of the deferred tax asset not recognised, measured at a standard rate of 30% is £1,396,889 (2003 - £1,450,077)

8. Tangible fixed assets

	Short leasehold land and buildings £	Equipment £	Total £
Cost:			
At 3 July 2003	8,119,784	1,878,043	9,997,827
Additions during the period	8,420	6,841	15,261
Disposals	(4,265,332)	(389,298)	(4,654,630)
At 1 July 2004	3,862,872	1,495,586	5,358,458
Depreciation:			
At 3 July 2003	5,893,178	392,386	6,285,564
Provided during the period	287,661	24,290	311,951
Disposals & other movements	(4,478,035)	(75,930)	(4,553,965)
At 1 July 2004	1,702,804	340,746	2,043,550
Net book value:			
At 1 July 2004	2,160,068	1,154,840	3,314,908
At 3 July 2003	2,226,606	1,485,657	3,712,263

9. Stocks

	1 July 2004 £	3 July 2003 £
Stocks held for resale	32,733	48,757

Notes to the financial statements

at 1 July 2004

10. Debtors – due within one year

	<i>1 July 2004 £</i>	<i>3 July 2003 £</i>
Trade debtors	136,511	105,874
Prepayments and accrued income	227,169	719,074
Other debtors	-	35,700
Consortium relief receivable	286,000	286,000
Amounts owed by other parties	3,880,926	36,648
	<u>4,530,606</u>	<u>1,183,296</u>

11. Debtors – due after more than one year

	<i>1 July 2004 £</i>	<i>3 July 2003 £</i>
Amounts owed by group undertakings	5,304,791	344,019
	<u>5,304,791</u>	<u>344,019</u>

12. Investments

	<i>1 July 2004 £</i>	<i>3 July 2003 £</i>
Investment in Belfast Odyssey Cinemas Limited:		
Opening balance	-	-
Movement in the period	2	-
Closing balance	<u>2</u>	<u>-</u>

13. Creditors: amounts falling due within one year

	<i>1 July 2004 £</i>	<i>3 July 2003 £</i>
Bank overdraft	6,242,119	-
Other creditors	171,704	4,118,873
Accruals	908,469	2,458,357
Amounts owed to related undertakings	2,989,117	352,470
	<u>10,311,409</u>	<u>6,929,700</u>

Notes to the financial statements

at 1 July 2004

14. Creditors: amounts falling due after more than one year

	1 July 2004 £	3 July 2003 £
Amount owed to group undertakings	2,517,566	3,895,209

15. Share capital

	1 July 2004 £	3 July 2003 £
<i>Authorised</i> Ordinary shares of £1 each	1,000	1,000

	1 July 2004 No.	3 July 2003 £
<i>Allotted, called up and fully paid</i> Ordinary shares of £1 each	2	2

16. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Profit and loss account £	Total £
At 4 July 2002	2	(3,491,506)	(3,491,504)
Loss for the period	-	(1,968,936)	(1,968,936)
At 3 July 2003	2	(5,460,442)	(5,460,440)
Profit for the period	-	5,851,558	5,851,558
At 1 July 2004	2	391,116	391,118

Notes to the financial statements

at 1 July 2004

17. Capital commitments

Leasing Commitments

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

	<i>Land and buildings</i>		<i>Plant and machinery</i>	
	<i>1 July</i>	<i>3 July</i>	<i>1 July</i>	<i>3 July</i>
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
In over five years	1,515,000	2,685,000	653,956	615,345

18. Pension

Village Theatres 3 Limited made 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 staff left the plan as active members on 30 April 2003.

The scheme was self-administered and funded to cover past and future pension liabilities, including expected future earnings and pension increases, in respect of service up to 30 April 2003. The scheme was 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, were sufficient to fund the benefits payable under the scheme. The assets of the scheme were held in separately administered funds.

FRS17 requires that the pension schemes 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. Village Theatres 3 Limited was not identified as one of these sub-groups. As a result, the defined benefit scheme was accounted for as a defined contribution scheme in these financial statements for the period ended 3 July 2003.

Following the acquisition on 12 May 2003 by Vue Entertainment Group of certain operating companies and assets of Warner Village Cinemas in the UK, the Vue Entertainment group undertook a detailed review of its pension arrangements that was completed in November 2003. Following this review all eligible ex Warner Village Exhibition Limited employees were offered membership of the pre existing Spean Bridge Pension Plan with the opportunity to back date contributions to the acquisition date. The first contributions to the Pension Plan by ex Warner Village Exhibition employees were made in December 2003.

Effective from 12 May 2003, the majority of employees seconded from Warner Village Exhibition Limited (an associated company) transferred employment to the Vue Entertainment group (non-associated) as part of a restructuring.

19. 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.

Notes to the financial statements

at 1 July 2004

20. 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.

21. Subsequent events

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