

# review of Opera



**DAVID SEARGEANT**  
MANAGING DIRECTOR

## ENTERTAINMENT

### Cinema Exhibition — Domestic

As at 30 June	2008	2007	Movement
Cinema Locations*	54	56	(2)
Cinema Screens*	461	467	(6)

\* Owned, joint venture and managed cinema sites.

Domestic Exhibition achieved an increase in Box Office of \$5,962,000 representing growth of 3.4% on a same screen basis compared to the prior year. The result was due largely to a stronger performance in the first half, and an increase in the Average Admission Price of 2.4%. Whilst Domestic Exhibition earnings experienced a decline to the prior year, the comparable period was positively impacted by several property asset sales and the write back of prior period provisions totalling \$3,929,000.

The top grossing films for the year were *Harry Potter and the Order of the Phoenix* and *The Simpsons Movie* with each achieving in excess of \$30 million at the Australian Box Office. Other major contributors were *Indiana Jones and the Kingdom of the Crystal Skull*, *Sex and the City*, *I Am Legend* and *The Bourne Ultimatum*, with each film grossing in excess of \$20 million at the Australian Box Office.

# tions

## by division

Merchandising revenue continued to show strong growth with a 9% increase in spend per customer. This result was primarily driven by the continuing significant success of the Gold Class concept with total revenues for Gold Class up by 35.3% on the prior year.

Initiatives designed to enhance the customer experience by booking online, saw the number of customers using this channel increasing by 33% on the prior year. Similarly, the broadening of retail sales channels for gift card products and a strong focus on corporate sales resulted in a 22% increase in the sales of these products.

The Group undertook a major refurbishment of the George Street Cinema Complex during the year. This refurbishment, which was completed in December 2007, included retrofitting six screens to incorporate two giant G-Max screens and four Gold Class auditoria and a stylish Gold Class lounge. Redevelopment of the ticketing, foyer and food and beverage offering was completed in March 2008.

The Group also commenced a digital cinema test at George Street in April, where d-cinema systems were deployed in all 16 screens, making it the first fully digital cinema complex to operate in Australia. To date, the test has proven successful, and has provided valuable insights with respect to operating in an all-digital environment.

During the year the Group closed two sites, the three screen complex at Canberra Civic and a two screen drive-in located at Bass Hill. The Canberra site is currently being redeveloped as a seven level commercial office development and will be retained by the Group as an investment property, while the Bass Hill site is awaiting development approval for a residential sub-division.

The contribution from the Group's 50% interest in the Village managed circuit in Victoria increased by 37% over the prior year. This improvement was largely due to the closure of the loss making sites at Waverly Gardens and Dandenong and to growth in same screen trading levels due to a higher number of school holidays in Victoria during the year compared to other states and to the prior year.

# review of Operations by division continued



## Cinema Exhibition — International

As at 30 June	2008	2007	Movement
Cinema Locations*	74	74	—
Cinema Screens*	559	564	(5)

\* Owned, joint venture and managed cinema sites.

### Germany

The Group's cinema exhibition circuit in Germany again showed an improved result over the prior year assisted by the further reduction in the level of operating costs.

Whilst Box Office revenue remained at a level consistent with the prior year an increase in merchandising revenue contributed to the growth in total revenue. In addition revenues increased from the promotion and management of in-cinema functions and events through the wholly owned *Red Carpet Event* business.

After a weaker first half, the first three months of the 2008 calendar year produced a significant growth in admissions with a number of German productions performing strongly, including *Keinohrhasen* and *Die Welle*. *I am Legend* also performed strongly during this period. The box office performance over the last quarter of the financial year was disappointing with a lack of quality film product and the trading for June being impacted by the European Football Championship.

Other films that performed strongly in the German market during the financial year were *Harry Potter and the Order of the Phoenix*, *Ratatouille*, *The Simpsons Movie*, *Indiana Jones and the Kingdom of the Crystal Skull*, *The Golden Compass* and *Sex and the City*.

### Middle East

The Middle East cinema business continued to perform strongly. Box Office was ahead of prior year by 17%. Merchandising revenue grew by 20% in total as a result of both growth in admissions of 14.2% and the increase in spend per admission of 5.4%. Online ticketing was introduced in February 2008, and by June, the percentage of tickets sold through this channel had attained 1.5%.

### Netherlands

The Group's 33% interest in a 10 screen multiplex at Enschede was sold during the year. The profit on the sale before income tax was \$6,691,000.



## HOSPITALITY AND LEISURE

### Rydges Hotels and Resorts

As at 30 June	2008	2007	Movement
Locations*	37	34	3
Rooms*	6,406	6,132	274

\* Owned and managed hotels.

The normalised result for the Hotels and Resorts business was \$30,861,000 representing an increase of 22.9% on the prior year. Occupancy for the Group owned hotels was 74.7% and this represented an increase of 2.2 percentage points over the prior comparable year.

With relatively strong demand the focus was on improving yield and this resulted in the growth in the average room rate of 6% over that of the prior year. Demand was particularly strong in the major Australian mainland cities with New Zealand and regional Australia at best flat or declining when compared to the prior year.

Overall the performance of the Group's portfolio of hotels under management was pleasing and the growth in management fee income largely reflected this.

The launch of the *Rydges PriorityGuest program* has been very successful with 139,000 members joining in the first year of operation. Key benefits to members include a 10% discount on the Group's online best available rate, food and beverage discounts and rewards for frequency. The level of bookings now made online either direct or through third party websites is now in excess of 20% of all bookings with [www.rydges.com](http://www.rydges.com) achieving bookings growth of some 80% over those of the prior year.

The *Rydges Rejuvenation program* continued throughout the year, with a focus on the Rydges Dream Bed, LCD flat screen televisions and the launch of new breakfast concept, *Rydges Rise*. Also completed during the year was the major refurbishment of Rydges Melbourne with works to the exterior and entry, new foyer and the acclaimed new restaurant and bar concept, *Laconda*.

During the year the Group was successful in gaining new operating agreements for hotels in Brighton (opening November 2008), Adelaide (opening 2010) and Doha (opening 2010). The Group is currently developing concepts for entry within the 4.5 star boutique hotel segment and the 3.5 star business park and suburban markets.

The Group's website [rydges.com](http://rydges.com) has recently launched *Events at Rydges* enabling customers to create and book tailored meeting and events online. Additional focus continues to be on the expansion of the hotels and resorts online booking channels both to increase market share and effectively reduce distribution costs.

# review of **Operations** by division continued

## **Kosciuszko Thredbo**

Increased artificial snowmaking effectively negated the otherwise average natural snow conditions for the 2007 season. Thredbo achieved almost 374,000 skier days and this resulted in a significant flow-on effect for ski lessons, ski hire, retail and Thredboland.

The favourable skiing conditions helped to increase Thredbo's share of the national market by 3.2 percentage points for the 2007 season. Other positive earnings initiatives included the maximisation of yield-per-skier, increased marketing of the shoulder periods and effective management of operating costs.

The volume of total snow throughout the ski field at Thredbo has been significantly increased due to the automation of existing snowmaking systems and the expansion of these systems has continued with Stage 3,

which includes a further thirty five guns covering the World Cup Supertrail, having been completed for the 2008 season.

With the completion of the head lease negotiation, future development will focus on the adoption and staged implementation of a 20-year master plan for the Resort.

## **Leisure and Attractions**

Prolonged wet and unseasonal weather and a reduction in the level of inbound tourists, particularly from the Asian countries, adversely impacted the level of Featherdale's admissions. Overall total admissions were down 4% over the previous financial year.

The State Theatre experienced improved trading conditions mainly due to an additional 18 shows which resulted in an increase in admissions of 31.9% compared to the previous financial year.

## **ENTERTAINMENT TECHNOLOGY**

### **Atlab**

The 50% owned Atlab group experienced a significant decline in earnings from the previous year, with an overall contraction in margins on the production of feature film and trailer prints despite only slightly reduced volumes. Earnings from the processing of negatives and post production services were also negatively impacted following the cancellation of a major feature production.

A new digital post production facility commenced operations during the year, providing telecine transfers, high definition dailies and video mastering services from within Atlab's Lane Cove facility in Sydney.



### **Atlab Image and Sound Technology**

Atlab Image and Sound Technology contributed a satisfactory underlying trading performance for the year, with further growth in spare parts sales. Earnings were however impacted by a write-down in the value of film based inventories as the industry moves towards digitisation.

### **Filmlab**

Filmlab Engineering produced an improved result following a strong lift in processor sales for the year, which more than offset a decline in spare parts revenue which was impacted by adverse movements in exchange rates and in increased raw material and freight costs.

## **STRATEGIC INVESTMENTS**

### **Roadshow Distributors Pty Limited**

The Group's 50% interest in Roadshow Distributors was sold on 15 August 2007 for consideration of \$129,440,000, comprising cash proceeds of \$95,000,000 and extinguishment of loans totalling \$34,440,000. The profit on the sale before income tax was \$64,381,000.

### **Property**

Rental income from the Group's property portfolio increased on the prior year through general rental increases. Included in the result for this segment is a fair value decrement of \$1,400,000 relating to the revaluation of investment properties. This compares to the prior year fair value increment of \$4,879,000, and reflects a general softening in the valuation of commercial property assets.

Construction has commenced on a seven level commercial office development at the former cinema site at Mort Street, Canberra Civic. A pre-commitment leasing agreement for the entire building has been entered into.

A handwritten signature in black ink, appearing to read 'David C Seargeant'.

**David C Seargeant**  
Managing Director  
Amalgamated Holdings Limited