

Financial Statements

| | |
|--|----|
| Directors' Report | 36 |
| Statement of Financial Performance | 37 |
| Statement of Financial Position | 38 |
| Statement of Cash Flows | 39 |
| Notes to and forming part of the Financial Statements | 40 |
| Directors' Declaration | 58 |
| Independent Audit Report | 59 |

Directors' Report

The directors present their fourteenth annual report together with the financial report of Film Australia Limited for the year ended 30 June 2002 and the auditors' report thereon.

Directors

The directors in office at the date of this report are: Robert Fisher (Chair), Eve Mahlab (Deputy Chair), Sharon Connolly (Chief Executive Officer), Megan McMurchy, John Hirst and Sue Murray.

Directors' remuneration is determined by the Remuneration Tribunal as is the salary of the Chief Executive Officer.

Principal activities

The principal activities of the company during the course of the financial year were the production, marketing and distribution of film and video material and the provision of production facilities.

Result

The company recorded a profit from ordinary activities before income tax of \$2,404,213 for the year, compared to a loss in the 2001 year of \$304,177.

Review of operations

The company's activities for the year have been covered in the reports of the Chairman and the Chief Executive Officer.

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the accounts.

Environmental regulation

The company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the company.

Dividends

No dividends were paid or provided for during the year.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item or event of a material nature likely, in the opinion of the directors, to affect significantly the operations of the company, the result of those operations, or the state of affairs of the company in subsequent financial years.

Directors' benefits

During the financial year no director of the company has received or became entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments due or receivable by directors shown in the accounts) by reason of a contract made by the company in which the director has a substantial financial interest.

During or since the financial year, the company has paid premiums in respect of a contract insuring the directors and officers of Film Australia Limited against a liability incurred in their role as directors and officers of the company, except where:

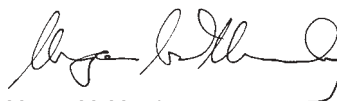
- a the liability arises out of conduct involving a willful breach of duty; or
- b there has been a contravention of Sections 232 (5) or (6) of the Corporations Act 2001.

Dated at Lindfield this 1st day of October 2002.

Signed in accordance with a resolution of the directors:



Robert Fisher
Director



Megan McMurchy
Director

Statement of Financial Performance

for the Year Ended 30 June 2002

| | Note | 2002 \$ | 2001 \$ |
|---|------|--------------|--------------|
| Revenue from ordinary activities | | | |
| Revenue from sale of goods | 3 | 3,355,480 | 6,113,120 |
| Revenue from rendering of services | 3 | 8,200,800 | 7,808,391 |
| Other revenues from ordinary activities | 3 | 361,548 | 418,406 |
| Revaluation of land and buildings | 4 | 3,109,680 | - |
| Total revenue from ordinary activities | 3 | 15,027,508 | 14,339,917 |
| Operating expenses from ordinary activities | | | |
| Cost of sales and provision of services | | (6,906,782) | (9,001,215) |
| Employee expenses | | (3,397,464) | (3,367,907) |
| Depreciation expenses | 3 b | (402,523) | (381,429) |
| Other operating expenses | | (1,916,526) | (1,893,543) |
| Operating expenses from ordinary activities | | (12,623,295) | (14,644,094) |
| Profit/(Loss) from ordinary activities before income tax | | 2,404,213 | (304,177) |
| Income tax attributable to operating profit/(loss) | 6 | - | - |
| Net profit/(loss) | | 2,404,213 | (304,177) |
| Transactions involving changes to equity | | | |
| Increase in revaluation reserve | 14 | 1,334,631 | - |
| Fundamental error | 2 | 2,511,395 | - |
| Total revenue and valuation adjustments recognised directly in equity | | 3,846,026 | - |
| Total changes in equity | | 6,250,239 | (304,177) |

The statement of financial performance should be read in conjunction with the notes to the financial statements set out on pages 40 to 57.

Statement of Financial Position

as at 30 June 2002

| | Note | 2002 \$ | 2001 \$ |
|--|------|-------------------|-------------------|
| Current Assets | | | |
| Cash | | 1,171,612 | 1,852,629 |
| Receivables | 7 | 4,924,319 | 4,424,750 |
| Inventories | 8 | 39,506 | 28,873 |
| Other | 9 | 16,766 | 24,965 |
| Total current assets | | 6,152,203 | 6,331,217 |
| Non-Current Assets | | | |
| Property, plant and equipment | 10 | 14,006,525 | 9,664,667 |
| Total non-current assets | | 14,006,525 | 9,664,667 |
| Total Assets | | 20,158,728 | 15,995,884 |
| Current Liabilities | | | |
| Creditors and borrowings | 11 | 2,786,524 | 2,243,585 |
| Provisions | 12 | 300,745 | 231,293 |
| Other | 13 | 43,304 | 2,768,682 |
| Total current liabilities | | 3,130,573 | 5,243,560 |
| Non-Current Liabilities | | | |
| Provisions | 12 | 64,750 | 39,158 |
| Total non-current liabilities | | 64,750 | 39,158 |
| Total Liabilities | | 3,195,323 | 5,282,718 |
| Net Assets | | 16,963,405 | 10,713,166 |
| Shareholders' Equity | | | |
| Contributed equity | 14 | 14,994,428 | 14,994,428 |
| Reserves | 14 | 1,706,788 | 372,157 |
| Retained earnings/(accumulated losses) | 15 | 262,189 | (4,653,419) |
| Total Shareholders' Equity | | 16,963,405 | 10,713,166 |

The statement of financial position should be read in conjunction with the notes to the financial statements set out on pages 40 to 57.

Statement of Cash Flows

for the Year Ended 30 June 2002

| | Note | 2002 \$ | 2001 \$ |
|--|------|--------------|--------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | | 11,293,589 | 14,519,634 |
| Payments to suppliers and employees | | (11,836,610) | (13,474,329) |
| | | (543,021) | 1,045,305 |
| Interest received | | 357,698 | 417,497 |
| Net cash flow from operating activities | 17 b | (185,323) | 1,462,802 |
| Cash Flows from Investing Activities | | | |
| Proceeds from sale of non-current assets | | 3,850 | 909 |
| Payment for plant and equipment | | (304,537) | (434,518) |
| Net cash used in investing activities | | (300,687) | (433,609) |
| Net increase/(decrease) in cash held | | (486,010) | 1,029,193 |
| Cash at the beginning of the financial year | | 5,772,806 | 4,743,613 |
| Cash at the end of the financial year | 17 a | 5,286,796 | 5,772,806 |

The statement of cash flows should be read in conjunction with the notes to the financial statements set out on pages 40 to 57.

Notes to and Forming Part of the Financial Statements

for the Year Ended 30 June 2002

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a Basis of preparation

This general purpose financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation.

These accounting policies have been consistently applied and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

b Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

c Foreign currency

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are either translated to Australian currency at rates of exchange current at that date, or translated to Australian currency at rates of exchange applicable to forward cover contracts taken out against specific transactions. This treatment does not have a significant impact on the company's figures.

Resulting exchange differences are brought to account in determining the profit or loss for the year.

d Leased plant and equipment

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits. Film Australia Limited has no finance leases.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

e Inventories

Inventories are carried at the lower of cost or net realisable value. Net realisable value is determined on the basis of each inventory line's normal selling patterns.

f Property, plant and equipment

(i) Acquisitions

Items of property, plant and equipment costing greater than \$500 are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Items of property, plant and equipment costing less than \$500 are expensed in the period in which they are acquired. Items of property, plant and equipment are depreciated as outlined below.

(ii) Revaluations

Land and buildings are independently valued every three years on a depreciated replacement cost basis of valuation. A valuation of land and buildings was carried out by an independent valuer during 2002.

An assessment of potential capital gains tax liability is made whenever an asset is revalued above its original cost. This assessment is taken into account in determining the revaluation amount.

(iii) Disposal

The gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset at the time of retirement and the proceeds received, and is included in the results in the year of disposal.

(iv) Depreciation and amortisation

Depreciation/amortisation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment, excluding freehold land, over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

Assets are depreciated or amortised from the date of acquisition, with exception of the buildings on freehold land which have been depreciated from the date of the directors' valuation in 2002.

Depreciation/amortisation rates applying to each class of depreciable asset are as follows:

| | 2002 | 2001 |
|----------------------------|---------------|---------------|
| Buildings on freehold land | 50 years | 50 years |
| Plant and equipment | 3 to 10 years | 3 to 10 years |

(v) Recoverable amounts

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

g Employee entitlements

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Long service leave

A liability for long service leave is recognised after 5 years service, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(iii) Sick leave

Film Australia Limited employees only take sick leave to which they are entitled in the current year. There is therefore no requirement to provide any additional sick leave entitlement.

h Superannuation funds

The company contributes to employee superannuation funds. Contributions are charged against income as they are made. See also Note 21.

i Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax payable.

(i) Sale of goods

Revenue from the sale of goods is recognised when control of the goods passes to the customer.

(ii) Rendering of services

Revenue from rendering of services is recognised when the stage of completion can be reliably measured.

(iii) National Interest Program contract

The company recognises income from this contract in the Statement of Financial Performance in the period in which it is received, since the adoption of accounting standard AASB 1004 Revenue in 2002.

(iv) Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(v) Sale of non-current assets

The gain or loss on disposal of non-current assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(vi) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

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

j Licence fees and royalties

The company adopts the accruals basis in accounting for licence fees and a cash basis of accounting for royalty income. Revenue from distribution activities is shown as gross and disbursements relating to such revenue are shown as a cost of sale.

k Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

l Cash

For purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

m Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. Trade debtors are carried at amounts due and are to be settled within the terms of the sales contract.

n Payables – Note 11

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

o Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 CHANGE IN ACCOUNTING POLICY

The company has applied the accounting standard AASB 1004 Revenue (effective July 1998) for the first time from 1 July 2001. The delay in implementing the standard has resulted in a fundamental error being reported in the Statement of Financial Performance. The adoption of the standard has resulted in the recognition of income in accordance with the terms of contract rather than on the basis of cost, plus an allocation of overheads.

The proforma statements of financial performance, the restatement of retained profits and other current liabilities below show the information that would have been disclosed had the accounting policy been applied from the introduction of the accounting standard.

| | 2002 | 2001 | 2000 | 1999 |
|--|-------------|-------------|-------------|-------------|
| Proforma statements of financial performance | | | | |
| Net profit/(loss) as reported | 2,404,213 | (304,177) | (259,582) | (166,280) |
| Effect of the implementation of AASB 1004 | - | 201,192 | 18,911 | 208,900 |
| Restated net profit/(loss) for the period | 2,404,213 | (102,985) | (240,671) | 42,620 |
| Restatement of retained earnings/ (accumulated losses) | | | | |
| Retained earnings/(accumulated losses) at end of previous year | (4,653,419) | (4,349,242) | (4,089,660) | (3,923,380) |
| Change in opening retained earnings/(accumulated losses) resulting from change in accounting policy | 2,511,395 | 2,310,203 | 2,291,292 | 2,082,392 |
| Restated retained earnings/(accumulated losses) at end of previous year | (2,142,024) | (2,039,039) | (1,798,368) | (1,840,988) |
| Restated net profit/(loss) | 2,404,213 | (102,985) | (240,671) | 42,620 |
| Restated retained earnings/(accumulated losses) at end of year | 262,189 | (2,142,024) | (2,039,039) | (1,798,368) |
| Restatement of other current liability (National Interest Program advance) | | | | |
| Balance at end of year as previously reported | - | 2,511,395 | 2,310,203 | 2,291,292 |
| Effect of change in accounting policy | - | (2,511,395) | (2,310,203) | (2,291,292) |
| Restated balance at end of year | - | - | - | - |

| | Note | 2002 \$ | 2001 \$ |
|---|------|-------------------|-------------------|
| 3 OPERATING PROFIT/(LOSS) | | | |
| a Profit/(Loss) from ordinary activities before income tax expense has been arrived at after including: | | | |
| Operating Revenue | | | |
| Sales revenue | | 3,355,480 | 6,113,120 |
| Services revenue | | | |
| National Interest Program | | 6,914,000 | 6,846,401 |
| Other services revenue | | 1,286,800 | 961,990 |
| | | <u>8,200,800</u> | <u>7,808,391</u> |
| Other revenue | | | |
| Interest received from other corporations | | 357,698 | 417,497 |
| Proceeds from sale of non-current assets | | 3,850 | 909 |
| | | <u>361,548</u> | <u>418,406</u> |
| Revaluation of land and buildings | 4 | 3,109,680 | - |
| Operating revenue from ordinary activities | | <u>15,027,508</u> | <u>14,339,917</u> |
| b Profit/(Loss) from ordinary activities before income tax expense has been arrived at after charging (crediting) the following items: | | | |
| Operating Expenses | | | |
| Depreciation | | | |
| Building | | 123,027 | 122,307 |
| Plant and equipment | | 279,496 | 259,122 |
| | | <u>402,523</u> | <u>381,429</u> |
| Raw materials written off | | 8,408 | 13,290 |
| Superannuation contributions | | 205,089 | 257,068 |
| Amounts set aside to provisions for: | | | |
| (i) Employee entitlements | | | |
| Long service leave | | 27,984 | 17,626 |
| Annual leave | | 180,087 | 193,227 |
| Award increase | | 67,614 | - |
| | | <u>275,685</u> | <u>210,853</u> |
| (ii) Doubtful trade debts | | (33,670) | 129,321 |
| (iii) Provision for stock obsolescence | | (18,408) | (13,290) |
| Sales of non-current assets | | | |
| Profit/(Loss) on sales of property, plant and equipment | | 1,499 | (826) |

| | Note | 2002 \$ | 2001 \$ |
|--|------|-------------|------------|
| 4 INDIVIDUALLY SIGNIFICANT EXPENSES/REVENUES INCLUDED IN PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | | | |
| Revaluation of land and buildings | | | |
| The revaluation increment, as a result of the independent valuation in 2002, has been recognised in accordance with accounting standard AASB 1041 Revaluation of Non-Current Assets. | | | |
| Total revaluation increment | | 4,444,312 | - |
| Balance of revaluation increment credited directly to the asset revaluation reserve | 14 | (1,334,632) | - |
| Amount of the revaluation increment equal to the revaluation decrement recognised as an expense in respect of the same class of assets in the year ended 30 June 1993 | | 3,109,680 | - |
| Withholding tax payable on disbursements relating to prior years | | - | 249,690 |
| Payment of actors' residuals relating to prior years | | - | 248,359 |
| Additional insurance premiums to replace cover for insurance held with HIH Casualty & General Insurance Ltd | | - | 39,781 |
| | | 3,109,680 | 537,830 |
| 5 AUDITORS' REMUNERATION | | | |
| Amounts received or due and receivable for audit services by: | | | |
| External Auditors - auditing accounts | | 50,000 | 49,500 |
| - other services | | - | - |
| | | 50,000 | 49,500 |
| 6 TAXATION | | | |
| a Income tax expense | | | |
| Prima facie income tax expense calculated at 30% (2001: 34%) on the profit/(loss) from ordinary activities | | 721,264 | (103,420) |
| Prima facie tax on fundamental error | | 753,419 | - |
| Increase in income tax expense due to: | | | |
| Depreciation of buildings | | 36,908 | 41,707 |
| Other non-deductible items | | 7,190 | 7,305 |
| Decrease in income tax expense due to: | | | |
| Revaluation of land and buildings | | (932,904) | - |

| | Note | 2002 \$ | 2001 \$ |
|--|------|------------|------------|
| Income tax expense on the profit from ordinary activities | | 585,876 | (54,408) |
| Recovery of tax losses not previously brought to account | | (585,876) | - |
| Future income tax benefit not brought to account | | - | 54,408 |
| Income tax expense attributable to profit from ordinary activities | | - | - |
| b Deferred tax and future income tax benefits | | | |
| (i) Deferred tax assets | | | |
| Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2001: 30%) on the following items: | | | |
| Provisions and accrued employee entitlements not currently deductible | | 114,509 | 85,098 |
| Other provisions and sundry items | | 405,961 | 457,355 |
| | | 520,470 | 542,453 |
| (ii) Future income tax not taken to account | | | |
| The potential future income tax benefit in the company, arising from tax losses and timing differences, has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt: | | | |
| Tax losses carried forward | | 66,013 | 472,917 |
| Timing differences | | 520,470 | 542,453 |
| | | 586,483 | 1,015,369 |
| 7 RECEIVABLES | | | |
| Current | | | |
| Short term deposits, maturing within 2 months and paying interest at a weighted average interest rate of 4.5% (2001: 5.8%) | | | |
| | | 4,115,185 | 3,920,177 |
| Trade debtors | | 989,450 | 749,216 |
| Less: Provision for doubtful trade debtors | | (210,973) | (244,643) |
| | | 778,477 | 504,573 |
| Investment in film projects | | - | 826,423 |
| Less: Provision for doubtful recovery of investment | | - | (826,423) |
| | | - | - |
| Distribution advances for film projects | | - | 140,150 |
| Less: Provision for doubtful advances | | - | (140,150) |
| | | - | - |
| Other debtors | | 30,657 | - |
| | | 4,924,319 | 4,424,750 |

| | Note | 2002 \$ | 2001 \$ |
|---|------|-------------------|------------------|
| Australian dollar equivalents of amounts receivable in foreign currencies not effectively contracted for exchange losses: | | | |
| United States Dollars | | 91,940 | 19,300 |
| English Pounds | | 8,173 | 3,019 |
| Euro | | 7,579 | - |
| | | <u>107,692</u> | <u>22,319</u> |
| 8 INVENTORIES | | | |
| Current | | | |
| Raw materials at cost | | - | 8,408 |
| Less: Provision for stock obsolescence | | - | (8,408) |
| | | <u>-</u> | <u>-</u> |
| Finished goods at cost | | 74,506 | 73,873 |
| Less: Provision for stock obsolescence | | (35,000) | (45,000) |
| | | <u>39,506</u> | <u>28,873</u> |
| | | <u>39,506</u> | <u>28,873</u> |
| 9 OTHER ASSETS | | | |
| Current | | | |
| Accrued income | | 15,511 | 24,965 |
| Prepayments | | 1,255 | - |
| | | <u>16,766</u> | <u>24,965</u> |
| 10 PROPERTY, PLANT AND EQUIPMENT | | | |
| a Total property, plant and equipment | | | |
| Freehold land – at valuation | | 7,800,000 | 3,400,000 |
| Buildings – at valuation | 10 c | 5,630,000 | 5,600,000 |
| Additions – at cost | | - | 14,722 |
| Less: Accumulated depreciation | | - | (612,219) |
| | | <u>5,630,000</u> | <u>5,002,503</u> |
| Plant, furniture and equipment – at cost | | 3,394,859 | 4,307,478 |
| Less: Accumulated depreciation | | (3,066,176) | (3,175,076) |
| | | <u>328,683</u> | <u>1,132,403</u> |
| Computer equipment – at cost | | 1,346,558 | 1,137,188 |
| Less: Accumulated depreciation | | (1,098,716) | (1,007,427) |
| | | <u>247,842</u> | <u>129,761</u> |
| Total property, plant and equipment – net book value | | <u>14,006,525</u> | <u>9,664,667</u> |

Land and buildings have been revalued by an independent valuer as at June 2002 on the basis of the existing use of land and buildings at an open market valuation. This valuation has been incorporated into the accounts.

| | Note | 2002 \$ | 2001 \$ |
|--|----------|------------|------------|
| b Valuation of land | | | |
| The most recent valuation of freehold land is independent | 1 f (ii) | 7,800,000 | 3,740,000 |
| c Valuation of buildings | | | |
| The most recent valuation of buildings is independent | 1 f (ii) | 5,630,000 | 5,193,000 |
| d Reconciliation of property, plant and equipment for the year ended 30 June 2002 | | | |

| | Land | Buildings | Plant, Furniture & Equipment | Computer Equipment |
|---------------------------------|-----------|-----------|------------------------------|--------------------|
| Carrying amount at 1 July 2001 | 3,400,000 | 5,002,503 | 1,132,403 | 129,761 |
| Additions | - | - | 79,110 | 225,427 |
| Disposals | - | - | - | (2,351) |
| Net revaluation increments | 4,400,000 | 44,311 | - | - |
| Depreciation expense | - | (123,027) | (176,617) | (104,995) |
| Other movements | - | 706,213 | (706,213) | - |
| Carrying amount at 30 June 2002 | 7,800,000 | 5,630,000 | 328,683 | 247,842 |

11 CREDITORS AND BORROWINGS

Current

| | | |
|-----------------|-----------|-----------|
| Trade creditors | 2,786,524 | 2,243,585 |
|-----------------|-----------|-----------|

12 EMPLOYEE ENTITLEMENTS

Current

| | | |
|--------------------|---------|---------|
| Annual leave | 184,763 | 179,992 |
| Long service leave | 48,368 | 51,301 |
| Award increase | 67,614 | - |
| | 300,745 | 231,293 |

Non-current

| | | |
|--|---------|---------|
| Long service leave | 64,750 | 39,158 |
| Aggregate employee entitlement liability | 365,495 | 270,451 |

Number of employees

| | | |
|---------------------------------|----|----|
| Number of employees at year end | 42 | 42 |
|---------------------------------|----|----|

The values of employee entitlements have been calculated on current salaries at the end of the financial year.

| | Note | 2002 \$ | 2001 \$ |
|---|------|-------------------|--------------------|
| 13 OTHER CURRENT LIABILITIES | | | |
| National Interest Program advance | | - | 2,511,395 |
| Prepaid sales | | 29,536 | 132,795 |
| Other payments received in advance | | 13,768 | 124,492 |
| | | <u>43,304</u> | <u>2,768,682</u> |
| 14 CONTRIBUTED EQUITY AND RESERVES | | | |
| Issued and paid-up capital 12,803,570 ordinary shares | | <u>14,994,428</u> | <u>14,994,428</u> |
| Asset revaluation reserve balance at the beginning of the year | | 372,157 | 372,157 |
| Revaluation of land and buildings in 2002 | 4 | <u>1,334,631</u> | - |
| Asset revaluation reserve balance at the end of the financial year | | <u>1,706,788</u> | <u>372,157</u> |
| Total reserves at the end of the year | | <u>1,706,788</u> | <u>372,157</u> |
| 15 RETAINED EARNINGS/(ACCUMULATED LOSSES) | | | |
| Statement of retained earnings/(accumulated losses) | | | |
| Accumulated losses at the beginning of the year | | (4,653,419) | (4,349,242) |
| Effect of the implementation of AASB 1004 | 2 | <u>2,511,395</u> | - |
| Restated accumulated losses at the beginning of the year | | (2,142,024) | (4,349,242) |
| Net profit/(loss) | | <u>2,404,213</u> | <u>(304,177)</u> |
| Retained earnings/(accumulated losses) at the end of the year | | <u>262,189</u> | <u>(4,653,419)</u> |
| 16 TOTAL LEASE COMMITMENTS | | | |
| a Lease payments | | <u>98,598</u> | <u>100,820</u> |
| b Non-cancellable operating lease commitments | | | |
| Payable no later than one year | | 83,334 | 97,395 |
| Payable later than one, not later than two years | | 34,509 | 46,895 |
| Payable later than two, not later than five years | | - | 18,275 |
| | | <u>117,843</u> | <u>162,565</u> |

| | Note | 2002 \$ | 2001 \$ |
|--|------|-------------|------------|
| 17 NOTES TO THE STATEMENT OF CASH FLOWS | | | |
| a Reconciliation of cash | | | |
| For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheets as follows: | | | |
| Cash on hand | | 1,171,611 | 1,852,629 |
| Short term deposits | 7 | 4,115,185 | 3,920,177 |
| As per Statement of Cash Flows | | 5,286,796 | 5,772,806 |
| b Reconciliation of operating profit/(loss) after income tax to net cash provided by operating activities | | | |
| Operating profit/(loss) after tax | | 2,404,213 | (304,177) |
| Add/(Less) non cash items | | | |
| Depreciation | | 402,523 | 381,429 |
| Increase/(Decrease) in provision for doubtful debts | | (33,670) | 129,321 |
| Increase/(Decrease) in provision for obsolete stock | | (18,408) | (13,290) |
| Increase/(Decrease) in employee entitlements | | 95,044 | 4,711 |
| Revaluation of land and buildings | | (3,109,680) | - |
| Recognition of National Interest Program income from prior years | | 2,511,395 | - |
| (Profit)/Loss on sale of plant and equipment | | (1,499) | 826 |
| Net cash provided by operating activities before change in assets and liabilities | | 2,249,918 | 198,820 |
| Changes in assets and liabilities | | | |
| (Increase)/Decrease in receivables | | (268,776) | 412,937 |
| (Increase)/Decrease in inventories | | 7,776 | 14,212 |
| (Increase)/Decrease in other assets | | 8,199 | (10,147) |
| Increase/(Decrease) in trade creditors and other liabilities | | 542,940 | 645,585 |
| Increase/(Decrease) in current liabilities – other | | (2,725,380) | 201,395 |
| Net cash flow from operating activities | | (185,323) | 1,462,802 |

18 DETAILS OF DIRECTORS

a The directors of Film Australia Limited during the year were:

Robert Fisher – Chair
Eve Mahlab – Deputy Chair
Sharon Connolly – Chief Executive Officer
Megan McMurchy
John Hirst
Sue Murray (from 24 September 2001)

b Board

The names of the directors of Film Australia Limited in office at the date of this report and details of their qualifications, experience and special responsibilities where applicable are:

Robert Fisher Dip Accountancy (RMIT), FCA

Age 59. Joined the Board in 1998 and was appointed Chairman in March 1999. Chief Executive of the First Australian Completion Bond Company Pty Ltd. Has spent 23 years working in the chartered accountancy profession, and the last 20 years working in the film and television industry. Worked for eight years with McElroy and McElroy Pty Ltd as general manager and finance director and production controller.

Chair of the Finance and Audit Committee.

Eve Mahlab AO, LLB, LLD (hc) Monash

Age 65. Joined the Board in 1998 and was appointed Deputy Chair. A prominent business woman and formerly a non-executive director of several corporate and community boards, including the Westpac Banking Corporation and the Walter and Eliza Hall Institute of Medical Research. A trustee of the Victor Smorgon Charitable Trust.

Member of the Finance and Audit Committee.

Sharon Connolly BA (Hons) (LaTrobe University)

Age 46. Joined the Board in July 1997, when appointed Chief Executive Officer of Film Australia. Executive Producer with the company from 1993, she was previously an independent filmmaker and has held various positions with the ABC and Film Victoria. A founding director of Melbourne company Yarra Bank Films, she has served on the Board of Film Victoria, on the Council of the Screen Producers Association of Australia and as Deputy Chair of the Australian Documentary Conference.

Member of the Finance and Audit Committee.

Megan McMurchy BA (University of Queensland)

Age 53. Joined the Board in May 1999. Produced the feature films *Talk* and *Breathing Under Water*, and a number of short films and documentaries including the award-winning *Sadness*, *For All the World to See* and *For Love or Money*. Worked as a contract producer for Film Australia on the *New Horizons* series and *Mystique of the Pearl* and then as an executive producer (1997–1998), commissioning projects such as *The Diplomat*, *China Dolls* and *A Calcutta Christmas*. Acted as series producer for SBS Independent's series *Hybrid Life*, and during 2001–2002 was series producer on the multiplatform drama series *Fat Cow Motel*.

John Hirst BA, PhD (University of Adelaide)

Age 60. Joined the Board in May 1999. An historian at La Trobe University and author of several books including *Convict Society and its Enemies* (1983) and *Strange Birth of Colonial Democracy* (1988). Appeared in Film Australia's *Federation* series and is the author of a history of Federation, *The Sentimental Nation* (2000). Chair of the Commonwealth Government's Civics Education Group.

Sue Murray

Age 53. Joined the Board in September 2001. Executive Director of production company Fandango Australia since February 2002. Has worked in the film and television industry for over 20 years. Previously a freelance consultant and acquisitions consultant for US distributor Fine Line Features, she held various positions at the Australian Film Commission including Director of Marketing from 1987 to 1998.

c Directors' remuneration

The number of directors, including the Managing Director, who received, or in respect of whom income is due and receivable from the company, within the following bands, is:

| | | | 2002 | 2001 |
|---------|----|---------|--------|--------|
| | \$ | \$ | Number | Number |
| 10,000 | - | 19,999 | 3 | 2 |
| 20,000 | - | 29,999 | 1 | 1 |
| 40,000 | - | 49,999 | 1 | 1 |
| 160,000 | - | 169,999 | 1 | 1 |
| | | | 2002 | 2001 |
| | | | \$ | \$ |

Total income received, or due and receivable, by the directors of Film Australia Limited from the company in connection with the management of the company

296,882

269,169

Amounts paid to superannuation funds

26,574

24,853

d Attendance at Board meetings

Details of attendance at Board meetings by each person who was a director of Film Australia Limited during the financial year are as follows:

| | Number of meetings held while a director | Number of meetings attended |
|---|--|-----------------------------|
| Robert Fisher – Chair | 6 | 6 |
| Eve Mahlab – Deputy Chair | 6 | 5 |
| Sharon Connolly – Chief Executive Officer | 6 | 6 |
| Megan McMurchy | 6 | 6 |
| John Hirst | 6 | 6 |
| Sue Murray | 5 | 5 |

e Loans to directors

There are no loans to directors.

f Directors' shareholdings

The directors do not hold any shares in Film Australia Limited.

19 EXECUTIVES' REMUNERATION

The number of executive officers of the company whose remuneration from the company falls within the following bands, is:

| | | | 2002 | 2001 |
|---------|----|---------|--------|--------|
| | \$ | \$ | Number | Number |
| 100,000 | - | 109,999 | 3 | 2 |
| 110,000 | - | 119,999 | - | 1 |
| 120,000 | - | 129,999 | 1 | 1 |
| | | | 2002 | 2001 |
| | | | \$ | \$ |

Total income received, or due and receivable,
by executive officers of Film Australia Limited from
the company whose income is \$100,000 or more

| | | |
|--|---------|---------|
| | 448,503 | 441,063 |
|--|---------|---------|

Executive officers are those officers involved in the strategic direction, general management or control of business at a division level. The Managing Director's remuneration is included in Note 18.

20 RELATED PARTIES

Directors

Details of directors' remuneration, superannuation and retirement payments are set out in Note 18.

Apart from the details disclosed in this note, no director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Other transactions

One director, Megan McMurchy, has occasional professional dealings with Film Australia Limited in her capacity as a producer. Such professional services are on normal commercial terms and conditions.

Aggregate amounts of each of the above types of transactions with directors and their director related entities were as follows:

| | 2002 | 2001 |
|-----------------|------|-------|
| | \$ | \$ |
| Producers' fees | - | 3,500 |

21 COMMITMENTS

a Superannuation commitments

The company contributes to two different types of employee superannuation funds.

The company contributes to the Westpac Masterplan superannuation fund, matching contributions to the fund made by employees. Employees are entitled to contribute to the Westpac Masterplan upon commencement of full-time employment with Film Australia Limited. Contributions are based on various percentages of employees' gross salary.

Company contributions include eight per cent Superannuation Guarantee Levy.

Eight per cent Superannuation Guarantee Levy is paid to freelance and casual employees. Superannuation Trust Fund of Australia (STA) and JUST Super (previously Joint Entertainment Superannuation Trust (JEST)) are the two funds into which contributions are paid.

| | 2002 | 2001 |
|--|------|------|
| | \$ | \$ |

b Capital expenditure commitments

The estimated maximum amount of commitments contracted but not provided for and payable:

| | | |
|-------------------------|---|---|
| Not later than one year | - | - |
|-------------------------|---|---|

22 POST BALANCE DATE EVENT

There have been no significant events of a material nature since the end of the financial year.

23 CONTINGENT LIABILITIES

At year end, Film Australia was not involved in any actions that would result in a liability to the company.

24 ECONOMIC DEPENDENCY

A significant proportion of the company's business is reliant upon productions produced for the National Interest Program under contract with the Commonwealth Government.

25 SEGMENT INFORMATION

The principal activities of Film Australia Limited are the production, marketing and distribution of film and video material. Geographically, revenue is derived from:

| | 2002 | 2001 |
|---------------|------------|------------|
| | \$ | \$ |
| Australia | 13,482,491 | 10,077,071 |
| International | 1,581,941 | 4,262,846 |

26 FINANCIAL INSTRUMENTS

a Terms, conditions and accounting policies

| Financial Instrument | Note | Accounting Policies and Method | Nature of Underlying Instrument |
|---|-----------|--|---|
| Financial Assets | | | |
| Deposits at Call Short Term Deposits | 7 | Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues. | Temporary surplus funds are placed on deposit with the company's banker. Interest is earned on a daily balance at the prevailing daily rate for money on call and is paid at month end. Interest on short term deposits is paid at the end of the term and is based on a negotiated rate. |
| Trade Debtors Other Debtors | 7 7, 9 | These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Provisions are made when collection of the debt is judged to be less rather than more likely. | Credit terms vary due to the nature of the company's business. The terms relating to the majority of the instruments are based on individual contracts. |
| Distribution Advances | 7 | The advances are recognised as the amounts advanced. Provision is made for bad or doubtful advances when collection of the advance or part thereof is judged to be less rather than more likely. | The advances are made unsecured and with varying terms and conditions relating to repayment. The majority of the amounts disclosed should be repaid within 12 months. The advances do not incur interest. |
| Financial Liabilities | | | |
| Trade Creditors | 11 | Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. | Settlement is usually made within 30 days. |
| Other Liabilities | 13 | The liabilities are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. | The liability is comprised of prepaid sales and other fees received in advance. Settlement of the liabilities vary but are expected to be made within 12 months. |

b Interest rate risk

| Financial Instrument | Note | Floating Interest Rate | | Fixed Interest Rate 1 year or less | | Non-interest Bearing | | Total | | Weighted Average Effective Interest Rate | |
|--|------|------------------------|----------------|---------------------------------------|----------------|-------------------------|----------------|----------------|----------------|--|-----------|
| | | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 | 2002 \$'000 | 2001 \$'000 | 2002 % | 2001 % |
| Financial Assets (Recognised) | | | | | | | | | | | |
| Cash at Bank & on Hand | | - | - | - | - | 1,172 | 1,795 | 1,172 | 1,795 | n/a | n/a |
| Deposits at Call | | 2 | 58 | - | - | - | - | 2 | 58 | 3.75 | 3.8 |
| Short Term Deposits | 7 | - | - | 4,115 | 3,920 | - | - | 4,115 | 3,920 | 4.5 | 5.8 |
| Trade Debtors | 7 | - | - | - | - | 778 | 505 | 778 | 505 | n/a | n/a |
| Other Debtors | 7, 9 | - | - | - | - | 47 | 25 | 47 | 25 | n/a | n/a |
| Total Financial Assets | | 2 | 58 | 4,115 | 3,920 | 1,997 | 2,325 | 6,114 | 6,303 | | |
| Total Assets | | 20,159 15,996 | | | | | | | | | |
| Financial Liabilities (Recognised) | | | | | | | | | | | |
| Trade Creditors | 11 | - | - | - | - | 2,787 | 2,244 | 2,787 | 2,244 | n/a | n/a |
| Other Liabilities | 13 | - | - | - | - | 43 | 2,769 | 43 | 2,769 | n/a | n/a |
| Total Financial Liabilities | | - | - | - | - | 2,830 | 5,013 | 2,830 | 5,013 | | |
| Total Liabilities | | 3,195 5,283 | | | | | | | | | |

Net fair values of financial assets and liabilities

| | Note | 2002 | | 2001 | |
|---|------|---------------------------------|------------------------------------|---------------------------------|------------------------------------|
| | | Total Carrying Amount \$'000 | Aggregate Net Fair Value \$'000 | Total Carrying Amount \$'000 | Aggregate Net Fair Value \$'000 |
| Financial Assets | | | | | |
| Cash at Bank & on Hand | | 1,172 | 1,172 | 1,795 | 1,795 |
| Deposits at Call | | 2 | 2 | 58 | 58 |
| Short Term Deposits | 7 | 4,115 | 4,115 | 3,920 | 3,920 |
| Trade Debtors | 7 | 778 | 778 | 505 | 505 |
| Other Debtors | 7, 9 | 47 | 47 | 25 | 25 |
| Total Financial Assets | | 6,114 | 6,114 | 6,303 | 6,303 |
| Financial Liabilities (Recognised) | | | | | |
| Trade Creditors | 11 | 2,787 | 2,787 | 2,244 | 2,244 |
| Other Liabilities | 13 | 43 | 43 | 2,769 | 2,769 |
| Total Financial Liabilities (Recognised) | | 2,830 | 2,830 | 5,013 | 5,013 |

Financial assets

The net fair value of all financial assets approximate their carrying amounts. None of the classes of financial assets are readily traded on organised markets in standardised form.

Financial liabilities

The net fair value of all financial liabilities are approximated by their carrying value. None of the classes of financial liabilities are readily traded on organised markets in standardised from.

c Credit risk exposures

The company's maximum exposures to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Assets and Liabilities.

The company has no significant exposures to any concentrations of credit risk.

Directors' Declaration

The directors declare that:

- a. the financial statements and associated notes comply with the Accounting Standards and Corporations Regulations 2001;
- b. the financial statements and notes give a true and fair view of the financial position as at 30 June 2002 of the performance of the company and the cash flows for the year then ended;
- c. in the directors opinion:
 - (i) there are reasonable grounds to believe that the company will be able to pay its debts when they fall due and payable; and
 - (ii) the financial statements and notes are in accordance with the Corporations Act 2001.

Made in accordance with the resolution of the directors:



Robert Fisher
Director

1 October 2002



Megan McMurchy
Director

1 October 2002

Independent Audit Report

To the members of Film Australia Limited

Scope

I have audited the financial report of Film Australia Limited for the financial year ended 30 June 2002. The financial report comprises:

- Directors' Declaration;
- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows; and
- Notes to and forming part of the Financial Report.

The company's directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with my understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of Film Australia Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2002 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements.

Australian National Audit Office



Mashelle Parrett
Executive Director

For the Auditor-General

Canberra
2 October 2002