

## VILLAGE ROADSHOW LIMITED

### CHAIRMAN'S ADDRESS

#### ANNUAL GENERAL MEETING 21 NOVEMBER, 2000

Ladies & Gentlemen, as I said, I welcome you here today to this twelfth Annual General Meeting and if you have in mind that I am going to commiserate in relation to the company's temporary downturn in cinema exhibition, you are quite remiss. Sure, I will refer to the reasons for this downturn, but I am hoping, through my comments, to give your morale a lift by relating the reasons for the company's prospective and successful future.

I'd also like to address some of the broader issues that a number of you have already raised with me and other members of the company.

And these are....

1. What is the Board's view of company performance over the last few years?
2. What is the company's current trading?
3. Explain the senior remuneration levels and why, in some cases, they've gone up when operating profit is about the same as the year before.

And finally,

4. What is the Board's outlook for this company? Is there growth ahead and is the objective to build up assets or profits which can be distributed to shareholders.

#### 1. LAST FEW YEARS

Profit performance over the last 2 or 3 years has been unsatisfactory to everyone at this meeting. And that's what you might say, a very kind interpretation, but the problem has been in cinema exhibition, problems beyond the company's control, but more about this later. Elsewhere, divisional performance has ranged from very good to excellent.

I think it's important to be realistic here and accept, as I said, a number of circumstances beyond the company's control. I'm talking about

- Hong Kong: underestimating piracy and the Government's will to address same.
- Germany: became ultra competitive and with high ground rents.
- Major property holdings (Argentina, Greece, Taiwan, and France): that are taking longer to sell off.
- Delays in permits and construction schedules which, combined with the overhead to get these underway, served to delay the return of profit to the company (Italy, UK).

Equally realistic is, not only have these situations been recognised and either fixed, or being fixed, but also that an overwhelming number of sites and countries had tremendous growth prospects when all of a sudden they were hit by a fall off in film product quality.

However, we believe this is temporary – having seen it all before. And given that enormously valuable experience of product cycles, Village Roadshow has developed a number of other businesses which will see the company through this difficult trading period for cinema exhibition throughout the world.

Our circuit in Korea is a standout exception to current trading with a number of local films proving both huge popularity and secondly confirming that the downturn elsewhere in the world is primarily product related. Greece is also currently a strong market for us with new facilities, a strong brand presence and dynamic marketing in an uncrowded marketplace.

You should know, Ladies & Gentlemen, that there are a number of companies particularly in the US who, unlike us here today, haven't learnt their history lessons. As single purpose, highly geared exhibitors, they've had it! Village Roadshow, your Village Roadshow, is in stark contrast, a cautiously geared and well-balanced and disciplined entertainment company. Not by luck, Ladies & Gentlemen, but it has been deliberately planned this way by your Board who are experienced in these matters. Village Roadshow's investments in Radio, Theme Parks and Film Production are paying off handsomely and any realistic valuation would, together, put VRL more than a billion dollars ahead on its investments here, which are in our books at cost or very conservative valuations.

A clear example of the value we have created was in the recent auction of a Sydney radio licence. At auction, that licence was sold for \$155m. Village's Austereo has 14 licences, a national coverage and an established market share, yet our licences are valued in our accounts at a mere \$454m.

So, what I'm saying is that the industry's unexpected and cyclical downturn in product quality is being corrected with sell-offs and overhead reductions. We will reduce our cinema circuit from some 18 countries, down to 8 to 10 that have the best profit potential as the product cycle changes. In the meantime, company performance in other divisions has been strong – both in cash flow and asset value. In judgement, the overall balance of performance is a positive one with a cinema circuit positioned to take full advantage of the upturn in film quality when it occurs, billion dollar assets in both radio and film production, with a theme park business generating good profits while coming out of the most dramatic external impacts on tourism in Village Roadshow's history and with a New Media division which has all the great timing advantages of learning from other people's mistakes, while at the same time harnessing the huge resources of the Ten Network and Village Roadshow to create, and importantly, to market a successful Online entertainment destination.

2. SALARY MATTERS

Ladies & Gentlemen, Village Roadshow is, in an industry where it is necessary to be, a high paying company. It always has been, and is essential, to create the foundations the company has today. Actually, there wouldn't be such a company as Village Roadshow, but for the founder's tradition of sharing profits and equity with its executives. This is primarily the result of building a small private company into one of note in Australia. The final test for the Board and the Remuneration Committee is however the value added and key performance indicators for the VRL group. There are many other reference points such as market rates and consultant opinions, along with supply and demand factors. These are all used, but the final test is company benefit. And not necessarily in an overall group sense, but more importantly related to key performance indicators or targets in specific areas of responsibility.

Some shareholders have asked me about Bruce Berman and Peter Ziegler's equities in Village Roadshow Pictures and Robert Kirby's equity in our Online Division. Bruce did not just join Village as an employee. Village Roadshow acquired his business which included a significant and valuable development portfolio. Accordingly, as part of this transaction a share in the success of Village Roadshow Pictures was seen as more than reasonable for the very real value Bruce brought to this company. Similarly Peter Ziegler who has always been a consultant to the group has uniquely crafted and put in place nearly \$1b low risk funding mechanisms which have enabled the group to build a valuable asset for shareholders and considerable future income streams. Also fees paid to Peter represent considerably less than what would be commanded by an investment banking team and therefore, his efforts represent real value.

Thirdly, Robert Kirby is employed as a consultant for the group, focusing on investigating global best practice in a number of new-media initiatives, including the Internet, wireless applications, digital technologies, etc. And the option granted to him for an equity share is not a gift.

He must pay to exercise that option, and then only if the business value exceeds \$50m. This is based on independent industry estimates and if that value is achieved, it will be largely due to Robert's strategic input and will have created enormous value for all shareholders.

As I said before, we are a high paying company, but on the other hand, we demand and are getting high value efforts from a number of people who are unique in their field.

It is one of the fundamental tenets of this company's ethos that the executive leaders in Village Roadshow perform to the best of their ability and share in the growth created. It is what sets this company apart from many others in its competitive field. It is what has grown this company from a \$4.3m profit in 1991 to a \$76.5m profit last year. From an earnings per share of 4½¢ in 1991

to nearly 17¢ in 2000. It is what will see this company through the current difficult trading in cinema exhibition to achieve above average investment returns.

The challenge, Ladies & Gentlemen, in this industry, with changing audience tastes, is never easy. But we will prevail by virtue of the Board's focus and the quality of management it employs on behalf of all shareholders.

3. CURRENT TRADING

4. FUTURE OUTLOOK

Let me take the topics of current trading and future outlook together, because, like you, I am disappointed with the share price performance. We are determined to demonstrate to the market that we are not just an exhibition company, but a media and entertainment company with strong core businesses of film, radio and theme parks. Each of these businesses are positioned for growth and are strong cash generators. You can see this in our EBITDA or cash flow results. And apart from exhibition, which I've just talked about, they are performing well, particularly our film production and radio divisions. With exhibition, this is a cyclical business and we are currently experiencing a slump. Product will turn around, and we expect Christmas trading will be a temporary reflection of that.

We are very confident that this division will return to strong profitability, but this is likely to be as far away as the next financial year, where if the product improves we will see the benefits of the current overhead reduction, retrenchments and the sale of a number of territories.

In the meantime, our radio division is on target for another record year while simultaneously growing ancillary revenue streams in data processing, direct mail, mall billboards and International operations. All of which strengthen the future prospects for this division.

In film distribution, our theatrical, home video and television have a strong line up through 2001.

Likewise, Village Roadshow Pictures which has stepped up its output with 12 films for release next year and is positioned for strong results. Plus, we are likely to see Matrix II and III in production, towards the end of 2001. Matrix I, you might be aware, is the biggest worldwide box office film ever in Warner Bros. history.

Finally, the theme park division, we believe, has seen the bottom of its trading cycle and is on the very early stages of upswing. International tourism numbers are still not showing signs of growth. But on the other hand, our domestic attendances are moving upwards. New attractions at all Parks, and a multi-million dollar refurbishment program at Sea World Nara Resort will, at the very least, increase our market share. John Menzies, Ladies & Gentlemen, has done a mighty job leading this division through a number of external crises that would have buckled men of lesser courage and vision. Thank you John and your team, on behalf of the Board and shareholders.

This week, Sea World's Polar Bears arrive in Australia and their habitat will be the best of its type in the world when completed by Christmas. These twelve-foot high Polar Bears will be the No.1 attraction on the Gold Coast over January.

And combined with the Looney Tunes family coaster at Warner Bros. Movie World, plus Mammoth Falls and the Terror Canyon rides at Wet'n'Wild, we are expecting a strong upturn in trading from this division over January. And we are continuing to develop concept attractions for each of the parks in the years ahead.

The Gold Coast represents a substantial investment for Village Roadshow and your Board believes that the park business will continue to grow and that further investments in these facilities will both protect, and importantly, improve investment returns over time.

Ladies & Gentlemen, many years ago Roc Kirby, the first Chairman of this company said, "Rome wasn't built in a day". And what I'm saying to you this morning is that the foundations are well in place for Village Roadshow to grow. But the very nature of the entertainment business is a gauntlet of changing tastes. Let there be no doubt that your company has for the last decade successfully run that gauntlet and we are well positioned to build on those very valuable investments in film, radio, theme parks and New Media. There will be cycles, whether you are manufacturing steel or selling hamburgers. The true strength of a company, we believe, is its ability to withstand those cycles and emerge stronger. Village Roadshow is such a company. It's asset base, investment value and revenue opportunities - recognising the temporary downturn in cinema exhibition - the greatest prospects of this company are, in every division, better than they have ever been.

Furthermore, as we have all seen lately, Village Roadshow has the balance and strength in its investment portfolio to maintain the financial health of the company during difficult cycles. This is a deliberate strategy of your board to counter balance the swings in the media and entertainment pendulum. Such measures can give a stability to this company's growth over a longer term. Despite the difficulties, last year's operating profit was a record for the company - many people forget this.

Ladies & Gentlemen, there are always many to thank when we are reviewing the group's activities and opportunities. In fact, there are too many to name individually at this time.

But one person, foremost, has proven time and time again his great loyalty to the company. He leads by example with an unremitting energy source and business leadership that motivates and directs the best possible performance in every aspect of the company's operations. Graham Burke is a man of

intelligence and vision. We are lucky to have him and on behalf of the Board and shareholders, I thank you, Graham, for your inspiring dedication.

One final matter before we move on to the agenda is the reduction in dividend. The payout ratio from this year's profits is some 53%. And this is in line with our previously stated policy to declare approximately 50% of our after tax profits as dividends. 53% is already on the high side for the Australian and International standards, and your Board believes that a 50% payout not only protects the company's reserves in these challenging times, but is also in the interests of all shareholders, which is nevertheless in the higher quartiles of market practice.

Ladies & Gentlemen, your Board expects profit growth to continue and an increasing share price to reflect that growth.

A stronger share price is to the benefit of all shareholders, but the ultimate determinant is market forces. However, rest assured that this Board is leaving no stone unturned to deliver its side of the equation – that is both profit performance and increasing the value of the company's assets. Your Board believes that Village Roadshow has a bigger future for all shareholders through this building of asset value and investment returns on that value.

Share that confidence and stay with us Ladies & Gentlemen.