

CHAIRMAN'S ADDRESS
VILLAGE ROADSHOW LIMITED
ANNUAL GENERAL MEETING
23 NOVEMBER, 1999

Ladies & Gentlemen, before we get onto the business of the meeting, let me take this opportunity to -

- 1) Briefly review last year's trading,
- 2) Bring you up to date on performance this year and our prospects,
- 3) Make mention of a couple of corporate governance aspects in relation to remuneration, and finally,
- 4) Leave with you the Board's vision of where Village Roadshow is going and our strategy for the future.

Firstly, about last year's trading. The main disappointment was our results in cinema exhibition. This was primarily a function of market conditions which likewise affected all of our colleagues and competitors through the 20 countries in which we operate. We were not alone in experiencing a shortage of popular blockbuster product, and this has been widely reported. It appears to have been however, a sharp but temporary downturn and current admission numbers are reflecting strong growth on last year and more importantly, this growth confirms that Village Roadshow's strategy in Exhibition is indeed a good investment with a strong and profitable long term future.

I did say last year that the Board aimed to trim the company back to its core businesses. This has been completed with the sale of peripheral, and, in some case ultimately unsuccessful, investments in Animation, Television Production, Resorts, the Village Entertainment Property Trust and Retail Stores. We weren't able to generate the profits and manifest the synergies we originally envisaged when we made these investments. Hence, the write back in the value of these investments to what we could sell them for.

The majority of the abnormal items booked during the year relate to the refocussing of our operations into our core businesses. These included writedowns in the carrying value of Laguna Quays, Daydream Island and Warner Bros. Studio Stores. All of these investments have now been sold, and no longer consume company resources or management time.

The remaining writedowns relate principally to our investment in Village Nine Leisure with the restructuring of the Intensity outlets into smaller format games centres. In addition, with the success of our Village Roadshow Pictures venture we felt it was prudent to write down the value of a number of potential film projects on our books that are now unlikely to be completed.

The abnormal items also include some abnormal gains and these related to the sale of the Village Entertainment Property Trust, a profit on the restructuring of our New Zealand operations and a profit on the partial sale of one of our key sites in Greece.

Nevertheless, in these circumstances – the changing focus of the company and the very difficult year in Exhibition – we were able to actually improve the underlying operating profitability of your company from \$68.1m to \$75.4m. Up 10.7%. In such tough trading conditions, one can, therefore, have even greater confidence in the underlying strength of Village Roadshow's core businesses in Exhibition, Radio, Distribution, Theme Parks and Production, and your Board's strategy in developing these strengths over the last few years. Village Roadshow is a very strongly based company focused on its core competencies and with equally strong growth prospects.

Current trading and the Board's outlook for this year and beyond. In Exhibition our trading results are well up on last year and our cash flow is close to budget for this division. We are expecting our EBITDA here to be over 40% up on the first 6 months last year. This number should not be seen as indicative of the full year trading, but more precisely as a reflection of the improved performance in this division over last year, at this point in time.

It is worthwhile re-emphasising here that Village Roadshow's Exhibition division is international in outlook. That has been the case for some time. Whilst our overall international returns or cash flow has been growing, it is only this year for the very first time where we are projecting that the U.K. multiplexes will exceed the Australian multiplexes in cash flow contribution. The aspirations of previous years are now manifested in the reality of today. The Exhibition division is now, in fact, in operation, and in profit and cash flow contribution, a truly international business for this company. We can now genuinely claim to rank equally with any other cinema company in the world. Together, as shareholders, we can therefore expect this division to go from strength to strength over the next few years, improving its return on assets as we continue to build critical trading mass and amortise pre-opening and establishment costs in each territory, over a larger operational base.

As I have said, the current trading is encouraging and the immediate outlook for Exhibition is one of very real confidence. This is based on current admissions, which includes a number of new sites, up 16% to mid-November on the same period last year and on the confidence in film product to be released in the coming months. This includes -

Pokemon
Toy Story II
The Insider
World is not Enough
End of Days
Green Mile
Bicentennial Man

Deception 2000
Erin Brockovich
Road to El Dorado
Rules of Engagement
Me, Myself and Irene
Mission Impossible II
Gladiator

In Radio, Village Austereo is breaking records in both ratings and revenue figures and given our forward bookings for December, the likely half-year result is expected to be some 15% ahead of the same time last year. It is indeed a mighty performance and return on investment continues to grow in line with expectations. These results are a great testament to the management here and its creative leadership of the industry. We are continuing to explore international opportunities, building on our successful investment in Malaysia.

In Distribution, the current results are mixed - with some product, such as *Matrix* outperforming expectations, while others underperform. Such is the nature of the business and the product flow, which also extends into our Video Division, Roadshow Entertainment. But with the release of *Pokemon* and *End of Days* in December, and further product we expect a continuing solid contribution here.

In Film Production – *Deep Blue Sea* and *Three Kings* were successfully released in America, while *Three to Tango* was disappointing. There will be a good revenue stream from these first two projects as the international release pattern flows through - and the half-year outlook is in line with last year's results. Profitability in this area is completely dependent on the timing - and of course, the popularity - of projects and while we cannot be certain of repeating the fabulous results of *Matrix*, there are a number of exciting projects in development which include *Matrix II* and *Matrix III*, which have the potential to make excellent contributions to group profits.

This Village Roadshow Pictures business can be, in time, one of your company's great financial pillars and fully justifies this investment for the future. It is however, a creative and therefore a risk business and your Board has consequently developed guidelines and procedures to limit that risk to the development processes. That is to say, we do not take risks on funding production budgets where there is no guaranteed distribution.

With Theme Parks, we think we've seen the bottom of declining international attendances and this year's half year result is expected to be higher than the same period last year by some 10 to 15%, depending on attendances over the next 6 weeks. The reasons for this are the early increases we are seeing in Asian tourism, along with a strengthening domestic market and the sale of our resorts. The parks are in excellent financial shape and we are continuing to invest in new attractions to maintain our market leadership and revenue growth. I should say here – and a number of queries have been raised lately – that the Fox Studio tour in Sydney is, for one thing, not directly comparable to the full and varied theme park experience we have here on the Gold Coast. Secondly, the quality and marketing of that facility, we believe, can only serve to enhance the theme park ethic. If you say it another way, they are growing the pie, and as Village Roadshow is the largest operator in this industry in Australia, such growth is to our benefit. We genuinely wish them every success.

That's a brief outline of where your company is at present and an indication of the confidence in our half year results that should serve to further strengthen the financial foundations of your company.

Regarding corporate governance, I want to say a few words about remuneration. It appears to be a matter of some controversy at many public company meetings nowadays and I don't

propose to brush it under the carpet as some might expect. Let me give you some benchmarks relative to the Board's thinking on this matter. We are an international business and our competitors are global. It is important to remember that we have -

- 1) Virtually grown from nothing 10 years ago to a billion-dollar company today.
- 2) Increased earnings per share by 23% over the last 3 years – well ahead of inflation.
- 3) Increased operating profit by 59% over the last 3 years.
- 4) Built, and continue to build, a cinema circuit equal to any and better than most in the world - a circuit that can, after recouping establishment costs, go on to provide a continuing stream of profit growth many years into your future.
- 5) Built a film production company that has all the potential of a major studio but without the equal financial risk.
- 6) Created a radio network that has provided the financial backbone for Village Roadshow to invest in its other core businesses while also providing the wherewithal for continuing dividend payments to shareholders during this building and growth phase of your company.
- 7) Successfully and profitably traded our theme parks through the worst tourism downturn in Australia's history, and come out the other side with increasing profits and secure growth prospects.

All this and more, is attributable to the quality of loyalty and talent from your Board and management of the company. The remunerations pertinent to these people, can, and should only be, benchmarked by international standards and the market place. Furthermore, we use external consultants specialising in these fields to make recommendations which are usually accepted. The only exceptions being an extraordinary value to the company and the enhancement of this company's prospects that wouldn't otherwise be achieved. Let's not get this matter out of proportion - the quality of this company and its results cannot be measured as at a moment in time. This is a growth company – it must be seen as such and assessed over a reasonable period of time. And in most measures over the last 3 years or 5 years or 10 years, the Board and Management have delivered the goods for shareholders. The Board does, however, accept that remuneration scales are a constantly changing environment and are therefore periodically reviewed. For example, there is trend towards growing the bonus or incentive proportion of remuneration, and the Board and its Remuneration Committee are very mindful of reflecting this trend in future discussion on this matter.

Remuneration is dictated by the market place – and this is a globally competitive environment which is chasing talented management who can build shareholder wealth.

On another matter of corporate governance, let me thank, on your behalf, John O'Neill who resigned from the Board last year. John was a valuable member of our Board with keen interest

in every aspect of the company. Not only were we sorry to lose the value of his intellect, but also his energy. His loyalty remains and we are thankful for that and the important professional contribution he made to the company. He did, however, go on to win the Rugby World Cup for Australia recently and while not directly beneficial to Village Roadshow, he made all the right decisions for Australia. Thank you, John.

Subsequently, we appointed Barry Reardon to your Board who brings great insights and power to all of the Board's strategic thinking.

Lord Hollick also resigned and was replaced by Charles Stern, who brings a tough financial discipline to the Board while at the same time reflecting and retaining Lord Hollick's valuable and appreciated links to the company.

We have joint ventured our Online activities with the Ten Network with the objective to align the significant marketing strengths, and audience reach, of both organisations to develop Online entertainment related businesses – businesses in which we are both entrenched and market leaders – to develop businesses that can capture a profitable share of this exponentially growing revenue market. The strategy, mechanisms, material and structure are close to finalisation and together we have committed \$20m to get a foothold in this potentially lucrative field. It is not a new business for either of us, but in reality, an outgrowth of our core entertainment businesses into this modern era. We would indeed be both negligent and neanderthal if your Board closed its eyes to the huge growth potential of this thoroughly modern medium.

Finally, Village Roadshow is a company with strong financial disciplines, with a Board clearly focused on growth in our core businesses. Last year, we weathered a couple of big storms in film product and Asian tourism. This company emerged stronger and this should provide great confidence in the underlying quality of your investment. Each of the core divisions stands on their own feet with the world of growth opportunities in front of them.

The Board is fully aware of the great support you have given us over the years. We have achieved much together positioning your company for leadership and growth in its core businesses to build profits, returns on investment and shareholder wealth.

We have come from nowhere at the start of this decade to a point where at the end of this millennium, together, we share a company with a global presence and excellent growth momentum and opportunity.

Village Roadshow as a group is well positioned and well funded to continue its growth into the future. Thank you for your continued support of the Board and management. I hope you will continue to share that confidence to be part of your company's growth into the future.