



**ASX / MEDIA RELEASE  
FOR IMMEDIATE RELEASE  
14 December, 2004**

**West Australian Newspapers Holdings and Publishing and Broadcasting  
each agree to buy 50% interest in Hoyts Cinemas**

West Australian Newspapers Holdings Limited (WAN) and Publishing and Broadcasting Limited (PBL) have agreed to form a 50-50 joint venture to operate the Hoyts Group (Hoyts), following the acquisition by each of them of a 50% equity interest in the Group owned by Consolidated Press Holdings (CPH).

**Transaction details**

The Hoyts Group includes Hoyts Exhibition; which operates 377 cinema screens in 47 cinema complexes in Australia and New Zealand; Hoyts Distribution, which is an independent film distribution business; and Val Morgan which sells and exhibits cinema advertising on a majority of cinema screens in Australia and New Zealand.

PBL and WAN will each pay \$173.5 million for a 50% equity interest.

The joint venture will be capitalised at \$347 million which, together with an opening net debt balance of \$173 million, implies an enterprise value of \$520 million. The banking facilities for the joint venture will be non-recourse to the partners.

WAN's 50% equity investment will be fully funded by debt.

For its 50% equity investment, PBL will issue 11,136,925 million shares to CPH based on PBL's one month volume weighted average share price to 8 December 2004 of \$15.58. This would increase CPH's shareholding in PBL by approximately 1.7% to 39.1%.

Completion is expected in the first quarter of calendar year 2005 with the joint venture to effectively start in January, 2005.

**Rationale for WAN's investment**

Warwick Kent A.O., the Chairman of WAN, said, "The investment in Hoyts meets our internal investment criteria, and has the capacity to provide good longer term returns to WAN and an uplift in earnings per share."

“The business has consistent cash flows that will fit well with the profile of WAN and the expectations of our shareholders.”

“The investment in Hoyts will not change our current policy of paying out 100 per cent of earnings as dividends to shareholders.”

“The investment in Hoyts offered diversification of earnings for WAN in a geographic sense and in terms of reduced dependence on newspapers.”

“We believe that our existing business led by our flagship, *The West Australian*, has good prospects for organic growth. We have one of the best publishing franchises in Australia and the economic outlook for WA is very solid.”

“However, we have been looking at options in media and entertainment to diversify our earnings base. The purchase of a 50% interest in a quality entertainment asset like Hoyts at a realistic valuation is in line with our broader strategy.”

Ian Law, Managing Director of WAN, said, “The purchase price reflects a 2005 calendar year EBITDA multiple of approximately 8 times.”

“Post-acquisition WAN would have interest cover of approximately 12 times and net debt of approximately \$300 million on an enterprise value of around \$2.2 billion.”

“The investment in Hoyts was an opportunity for WAN to continue to broaden its earnings stream in the media and entertainment sector.”

“The three business units within Hoyts – Exhibition, Distribution and Val Morgan Advertising – have experienced management and we are confident the momentum of the business will be maintained.”

### **Rationale for PBL’s investment**

James Packer, Executive Chairman of PBL, said, “PBL is delighted to be involved in a 50-50 joint venture with WAN.”

“Hoyts is a great business which we believe will continue to grow under the new ownership structure.”

Chief Executive Officer of PBL, Mr John Alexander, said, “The Hoyts business is a strong strategic fit with PBL’s core media and entertainment businesses. In addition, the investment is expected to be both earnings per share and cashflow per share accretive for PBL shareholders in its first full year. This acquisition presents an excellent opportunity for our company and its shareholders.”

## **PBL shareholder approval**

PBL's participation in the proposed transaction will be subject to approval of PBL shareholders at a General Meeting in late February 2005. CPH and its associates will not vote their PBL shares in relation to the proposed transaction.

PBL expects to be in a position to send shareholders an Explanatory Memorandum in January which will provide further detail regarding the proposed transaction. An Independent Expert's report will accompany this Explanatory Memorandum.

UBS, AG Australia Branch has been appointed financial adviser and Gilbert & Tobin legal adviser to PBL.

### *FOR FURTHER INFORMATION:*

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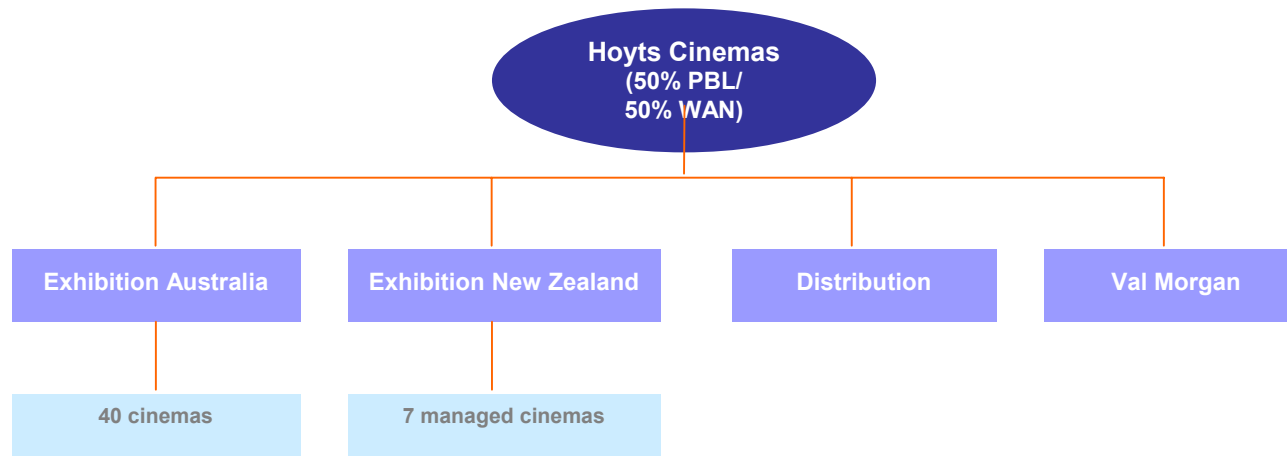
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BUSINESS UNIT SUMMARY		
Exhibition Australia and New Zealand	Distribution	Val Morgan
<ul style="list-style-type: none"> <li>Screening of films in Australia and New Zealand</li> <li>Exhibition Australia – owns and manages 336 screens in 40 cinema complexes located primarily in NSW, WA, Vic and SA. Market share of approximately 23%</li> <li>Exhibition New Zealand – owns and manages 42 screens in 7 cinemas in main metropolitan areas. Market share of approximately 16%.</li> <li>Income is mainly generated via admissions. Other income includes concessions, merchandise, corporate events, voucher sales and booking fees.</li> <li>All cinema sites are leased.</li> </ul>	<ul style="list-style-type: none"> <li>Distribution of films via exhibition, DVD, Video, Pay-TV and Free-TV windows in Australia and New Zealand</li> <li>First film distributed by Hoyts was in March 2002</li> <li>20 films have been theatrically released to date. 15 films are budgeted to be released in calendar 2005.</li> <li>Australian market share of approximately 1%. The major operators in the distribution market include Roadshow Film Distributors, United International Pictures (UIP), Buena Vista International, Twentieth Century Fox and Columbia Tristar</li> </ul>	<ul style="list-style-type: none"> <li>Largest provider of screen advertising in Australia and New Zealand</li> <li>Strong market position</li> <li>Hoyts acquired 100% of Val Morgan on 31 March 2004, prior to this date Hoyts held a 33.3% share in conjunction with Greater Union and Village</li> <li>Operations primarily in Australia and New Zealand, plus a joint venture operation in the United Arab Emirates</li> </ul>



## **Hoyts Cinemas includes three business units:**

- **Exhibition**
- **Distribution**
- **Val Morgan Advertising**

### **Hoyts Exhibition**

Exhibition is the cinemas or theatres and the related activities.

This segment generates approximately 78% of the EBITDA of Hoyts Cinemas.

Exhibition revenue is a function of admission numbers, average admission prices (AAP) and the candy bar spend per admission (SPA).

The core revenue is known as “box office revenue” (admissions x ticket prices) and there is the ancillary revenue from candy bar food and beverage sales, La Premiere lounge premiums, corporate and consumer voucher programs, and a share of advertising revenue generated by Val Morgan.

The operating costs include a percentage of box office revenue that is paid to the distributors of the films (“film hire”). The remaining operating costs are typical for a retailer – labour, property, cost of food and beverage, cleaning, security maintenance etc.

The key variable in the Exhibition segment is the level of admissions. This is largely determined by the quality of the films being released which itself is primarily dependent on Hollywood.

A number of the big film studios are forecasting an increase in the number of films being made as a result of greater profitability flowing into the distribution chain as a result of the increased sales of DVDs.

Most new films released are now supplied at the same time to all Exhibitors – such as Hoyts, Village, Greater Union and independents. The cost of the “film hire” varies according to the film, and the estimated total box office.

The cinemas operated by Hoyts are on long-term leases with the majority of the screens in major suburban shopping centres.

There are a number of reasons why cinemas continue to be an essential part of the movie industry. Firstly, box office revenue is still the major revenue stream in the life cycle of a film. The cinemas are also the major promotional tool for the subsequent distribution windows such as video/DVD, Pay TV and Free To Air TV.

Another factor supporting the longer-term role of the cinemas is that the revenue yield per viewer to the film producer is higher from the box office than it is from any of the other stages of the distribution chain.

There have been some suggestions that DVDs pose a major threat to cinema admissions. The US experience is that admissions have continued to rise even with DVD penetration rising to 80% of homes. Further, the exhibition window is already very short with most films lasting in the cinema for only 4-8 weeks before they are replaced with a new release. The release of a movie to the video/DVD stage of the distribution cycle is usually several months after theatrical. These distribution patterns and the increased usage of DVDs and home entertainment units are already built into the financial performance of Hoyts.

Attached are some tables showing independent projections on Box Office revenues, and Admissions to Cinemas.

## **Hoyts Distribution**

The Distribution business within Hoyts was commenced during 2002. It is projected to produce approximately 5% of the EBITDA of Hoyts Cinemas.

A film title typically passes through four distribution “windows” in its lifecycle – Theatrical (usually 6-12 months post acquisition), Video/DVD (usually 3-6 months post theatrical phase), Pay TV (usually 12 months post video phase) and Free TV (usually 14 months post Pay TV).

The majority of movies released in Australia and New Zealand are distributed by the big five film distributors (Roadshow, United International Pictures, Buena Vista International, Columbia Tri-Star and 20<sup>th</sup> Century Fox).

The movies from independent producers are generally distributed by independent distributors. The largest independent distributor in Australia and NZ is Icon Productions, which is owned by Mel Gibson.

Hoyts Distribution also focuses on films from independent producers.

The way in which income is generated and the methodology for calculating the share of that income due to the distributor and the producer is different at each distribution “window”. Distributor/producer percentages used in that methodology vary by contract, with each distribution contract individually negotiated with the films’ producer/licensor.

## **Val Morgan Cinema Advertising**

Val Morgan Cinema Advertising is a wholly owned subsidiary of Hoyts Cinemas. The Val Morgan business unit generates approximately 17% of the EBITDA of Hoyts Cinemas.

Val Morgan Cinema Advertising is in the business of selling and exhibiting advertising at theatres throughout Australia, New Zealand, with small interests in the Middle East and South America.

Val Morgan has long term agreements to sell and exhibit advertising on over 1,600 screens across Australia.

The breakdown of these screens by company/exhibitor in Australia is shown below:

<b><u>Operator</u></b>	<b><u>Metro</u></b>	<b><u>Regional/Country</u></b>	<b><u>Total</u></b>
Hoyts	290	46	336
Birch, Carrol & Coyle	102	115	217
Greater Union	202	39	241
Village	171	64	235
Classic	3	24	27
Large independents	264	95	359
Small independents	65	122	187
<b>Total</b>	<b>1,097</b>	<b>505</b>	<b>1,602</b>

*Source: Company data*

Val Morgan Cinema Advertising derives revenue from two main sources - film (“rolling stock”) advertising and digital motion graphics advertising.

Film advertising is based on larger national advertisers and is usually handled through an agency.

The standard advertising contracts for film advertisements are for a number of weeks in duration and the rates applicable vary by cinema locations, weight of screens and various other commercial factors.

Digital motion graphics (DMG) represents a new product line in Val Morgan. The DMG business was started in 2003 to provide a modern alternative to the older slide, single-image advertising. As opposed to film, DMG advertisements show a transition of digitally produced still images with a voice-over commentary. The DMG offering is focused at both locally-based advertisers and also larger regional or national clients not wanting to incur the expense of producing a full-motion television-style commercial. DMG sales are achieved partly through agencies and partly direct.

BOX OFFICE SPENDING GROWTH (A\$ MILLIONS)

Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2004-2008 CAGR
Australia	704	690	812	845	866	903	950	958	1,001	1,047	
% Change	11.9	-2.0	17.7	4.1	2.5	4.3	5.1	0.8	4.5	4.6	3.9
Asia/Pacific	5,581	5,586	6,291	6,412	6,528	6,801	7,143	7,492	7,848	8,193	
% Change	2.4	0.1	12.6	1.9	1.8	4.2	5.0	4.9	4.8	4.4	4.6
Global	26,671	27,593	30,825	33,474	33,431	34,880	36,745	38,634	40,600	42,580	
% Change	4.6	3.5	11.7	8.6	-0.1	4.3	5.3	5.1	5.1	4.9	5.0

Sources: PricewaterhouseCoopers "Australian Entertainment and Media Outlook: 2004-2008", Motion Picture Association of America, Australian Film Commission, Capa, Grafitti Info, OBS, Wilkofsky Gruen

ADMISSIONS GROWTH (MILLIONS)

Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2004-2008 CAGR
Australia	88	82	93	93	90	92	95	91	93	95	
% Change	10.0	-6.6	12.5	0.0	-2.9	2.4	3.3	-4.0	2.1	2.0	1.2
Asia/Pacific	4,083	4,230	4,047	3,901	3,944	4,024	4,122	4,247	4,372	4,494	
% Change	2.4	3.6	-4.3	-3.6	1.1	2.0	2.4	3.0	2.9	2.8	2.6
Global	6,931	7,069	7,107	7,143	7,090	7,222	7,398	7,597	7,798	7,995	
% Change	1.8	2.0	0.5	0.5	-0.7	1.9	2.4	2.7	2.6	2.5	2.4

Sources: PricewaterhouseCoopers "Australian Entertainment and Media Outlook: 2004-2008", Motion Picture Association of America, Australian Film Commission, Capa, Grafitti Info, OBS, Wilkofsky Gruen Ass

CINEMA ADVERTISING (A\$ MILLIONS)

Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2004-2008 CAGR
Australia	58	70	65	58	66	70	74	77	80	83	
% Change	9.4	20.7	-7.1	-10.8	13.8	6.1	5.7	4.1	3.9	3.8	4.7
Asia/Pacific	122	144	148	139	152	160	168	175	182	189	
% Change	0.0	18.0	2.8	-6.1	9.4	5.3	5.0	4.2	4.0	3.8	4.5
Global	1,440	1,571	1,642	1,544	1,620	1,710	1,800	1,900	2,000	2,100	
% Change	12.2	9.1	4.5	-6.0	4.9	5.6	5.3	5.6	5.3	5.0	5.3

Sources: PricewaterhouseCoopers "Australian Entertainment and Media Outlook: 2004-2008", CEASA (historical data), Wilkofsky Gruen Associates