

15 November 2005

## SPECIAL DIVIDEND

### FURTHER IMPLEMENTATION OF CAPITAL MANAGEMENT OBJECTIVES - ORDINARY SHARE BUY-BACK

Following the closing of the financial restructure of the Village Roadshow Pictures Group announced on 12 October 2005, the Directors of Village Roadshow Limited have completed a comprehensive review of the Company's financial position.

In addition, the Directors (other than Messrs R Kirby, J Kirby and G Burke, who are directors of Village Roadshow Corporation Limited ("VRC"), the controlling shareholder of the Company) have met to discuss and review the Company's capital management objectives referred to in the Company's announcement of 18 October 2004.

The Directors (excluding those Directors who are also directors of VRC) have today reaffirmed these capital management objectives.

In brief these can be summarized as follows:

- the overall capital management objective is to create a more efficient capital structure;
- the Directors are of the view that the Company's current capital structure has been a significant impediment to the reflection of the Company's underlying value in share market prices for both ordinary and preference shares;
- the Directors also believe that the current capital structure has the effect of inhibiting the distribution of income on a consistent and sustainable basis to holders of both ordinary and preference shares which thereby reduces the investment appeal of both classes of shares; and

as a result, the Directors believe that over time and as business circumstances permit, a total issued capital in the range of 235m to 285m shares will result in a capital structure that can, when required, at least sustain future dividends on a reasonably consistent basis, subject, of course to the financial performance, capital requirements, business objectives and prospects of the Company in the future.

## SPECIAL DIVIDEND

In light of the closing of the re-engineering of the production division and the Company's current financial position, the Directors have today resolved to declare a dividend of

- 7.175 cents per ordinary share; and
- 10.175 cents per A class preference share.

These dividends have been declared as special dividends. They will be fully franked and payments are expected to be despatched to shareholders on 29 November 2005.

The record date to determine entitlements to these dividends will be 24 November 2005.

The dividend will be funded out of the Company's cash reserves and will total approximately A\$23.12 million.

In accordance with previous announcements, consideration of future dividends will be made following the review of the audited accounts for the year ending 30 June 2006 and in light of the then current circumstances, including the outcome of the Company's capital management strategy and any new business opportunities.

It is expected that this review will take place at the end of August 2006.

### **ON-MARKET BUY-BACK OF ORDINARY SHARES**

The Directors of Village Roadshow Limited (other than Messrs R Kirby, J Kirby and G Burke, who are directors of VRC), have also resolved that the Company will buy-back up to approximately 16.5 million ordinary shares ("Buy-Back") as part of the implementation of the Company's capital management objectives.

A Form 281 for the buy-back will be lodged with ASIC today.

It is anticipated that the Company will commence the on-market buy back of ordinary shares on Monday 5 December 2005. As this date is after the record date for the special dividend referred to above, any ordinary shares bought back under this buy-back will be ex-dividend.

Shareholder approval is not required for this Buy-Back as it comprises an on-market buy-back falling within the maximum of 10% in 12 months allowed under the *Corporations Act*.

Further details of the proposed buy-back are set out in the ASX "Announcement of Buy-Back" Appendix 3C which will shortly follow this announcement together with the Form 281.

Finance Director, Mr Peter Foo said: "The Company has previously advised that one of its objectives is to reduce the total number of Ordinary and A Class Preference shares on issue down to between 235 million and 285 million shares. Successful completion of this buy-back will reduce the total shares on issue to approximately 260 million shares, which is consistent with the desired range under the Company's capital management objectives."

"Over the last 19 months VRL has bought back over 140 million A Class Preference shares and 66.5 million Ordinary shares. The Directors believe it is appropriate that the number of Ordinary shares on issue now be further reduced."

"In light of the stronger financial position of VRL, the Directors now consider it appropriate to reward shareholders with a fully franked dividend and to enhance earnings per share through an Ordinary share buy-back. VRL's previous buy-backs have enhanced VRL's ability to pay dividends on its outstanding shares."

"Returning funds to shareholders both by way of the special dividends and a buy-back enables the Company to satisfy most of the needs of shareholders. The Company has balanced this with the need to retain sufficient funds to finance its current growth opportunities."

## **SOURCE OF FUNDS FOR THE BUY-BACK**

After providing for payment of the special dividend referred to above, the Company currently has available to it cash deposits of at least \$200 million

Based on the current ordinary share price of \$2.36, the Buy-Back will require up to approximately \$39 million and will be funded out of VRL's cash reserves.

## **CORPORATE BANKING FACILITY**

Any buy-back of ordinary shares requires the approval of the Company's principal banker, ANZ Bank under the Company's corporate banking facility.

The ANZ Bank has given its consent to the Company buying-back up to 10% of its ordinary shares.

The consent is valid until 30 November 2006 and is not subject to any other terms and conditions. In particular, the consent of the ANZ Bank is not subject to any additional financial covenants or security.

## **FINANCIAL COVENANTS AND SOLVENCY**

The Directors have reviewed the financial and other covenants under the Company's relevant banking facilities and have analysed the effect of the special dividend and Buy-Back on the financial condition and solvency of the Company following payment of the special dividend and the Buy-Back.

Management cash flow forecasts and financial covenants for the next 3 years have been considered by the Board. In addition, the Directors have reviewed the contingent liabilities referred to in Notes 23(a)(viii) to (xiii) to the audited financial statements of the Company for the year ended 30 June 2005 ("2005 Financial Statements").

The 2005 Financial Statements were released on 9 September 2005 and are also set out in the 2005 Annual Report which was despatched to shareholders on 25 October 2005.

Based on this review and analysis, the Directors believe that:

- following the payment of the special dividend and the Buy-Back, the Company will be able to continue to meet its financial and other covenants under its relevant banking facilities; and
- the payment of the special dividend and the Buy-Back will not materially prejudice the Company's ability to pay its creditors

## **FINANCIAL EFFECT OF THE BUY-BACK ON THE COMPANY**

Based on an average price for the ordinary shares to be bought back under the Buy-Back being \$2.36, the Buy-Back will cost the Company approximately \$39 million (including legal, brokerage and other associated costs).

It is important to note that the Buy-Back may occur at an average price above or below \$2.36 per Ordinary Share, subject to the Listing Rules.

Since the date of the 2005 Financial Statements (being 9 September 2005), the Company has:

- closed the financial restructure of the Village Roadshow Pictures Group first announced on 27 July 2005;
- sold its entire investment in Village Cinemas Argentina; and
- settled the US legal claims against VRL and other group companies referred to in Note 23(a)(ix) of the 2005 Financial Statements and set out on page 69 of the 2005 Annual Report.

The Directors do not believe that there will be any material adverse effect on the prospects of the Company arising from the Buy-Back.

There is an 'interest cost' related to the cash used for the Buy-Back that would otherwise have been earning interest. This 'interest cost' is not expected to exceed (on an after tax basis) approximately \$1.5 million per annum.

Subject to the risks associated with the business and operations of the Company, the Company believes that the only material effect on the Company's financial position as a result of the Buy-Back will be this 'interest cost' and a reduction in net equity of an amount expended by the Company in undertaking the Buy-Back (i.e. a reduction in net equity of approximately \$39 million, on the assumption that the ordinary shares are bought back at the price of \$2.36 per share). The reduction in issued capital arising from the Buy-Back will have a negligible effect on projected earnings per share (based on all issued shares).

#### **PARTICIPATION OF VRC IN THE BUY-BACK**

VRC currently has a relevant interest in approximately 63.53% of the ordinary shares.

VRL will today request VRC to advise the Company whether or not it wishes to participate in the Buy-Back.

Shareholders should note that VRC participated in the buy-back of 43 million ordinary shares announced to ASX on 18 October 2004.

The Company has not yet received any information from VRC as to its intentions in regard to participation in the Buy-Back. In this regard, it should be noted that the directors of the Company who are also directors of VRC, Messrs R Kirby, J Kirby and G Burke:

- did not attend the directors meeting at which it was resolved; and
- did not participate in the decision

to undertake the Buy-Back.

Assuming VRC does not participate in the Buy-Back, VRC's voting power in the Company will increase from approximately 63.53% to:

- 65.13% if 25% of the 16.5 million ordinary shares are bought back under the Buy-Back;
- 66.81% if 50% of the 16.5 million ordinary shares are bought back under the Buy-Back;
- 68.58% if 75% of the 16.5 million ordinary shares are bought back under the Buy-Back; and
- 70.44% if 100% of the 16.5 million ordinary shares are bought back under the Buy-Back.

If, however, VRC does participate in the Buy-Back and 16.5 million ordinary shares are bought back, VRC's voting power in the Company will be:

- 67.72% if it sells 4.125 million ordinary shares into the Buy Back
- 65.00% if it sells 8.25 million ordinary shares into the Buy Back
- unchanged at 63.53% if it sells 10.482 million ordinary shares into the Buy-Back
- 62.28% if it sells 12.375 million ordinary shares into the Buy Back
- 59.66% if it sells 16.35 million ordinary shares into the Buy Back

Listing Rule 10.1 has the effect that the maximum aggregate amount the Company may pay to VRC under the Buy-Back must be less than 5% of the 'equity interests' (as defined in the Listing Rules) of the Company as set out in its audited financial statements for the year ended 30 June 2005 (5% of such 'equity interests' being \$38,588,150) unless shareholder approval is obtained for the purposes of that Listing Rule and an independent expert's report is provided to shareholders.

The effect is that, assuming a Buy-Back price of \$2.36 per ordinary share, the maximum number of ordinary shares the Company may buy-back from VRC under the Buy-Back is 16,350,911. If the Buy-Back price is less, the number of shares able to be bought back from VRC will be greater and if the Buy-Back price is greater, the number of shares able to be bought back from VRC will be less.

In line with the buy-back of ordinary shares announced on 18 October 2004, the Company will seek a written undertaking from VRC in favour of the Company that VRC will not participate in any buy back of ordinary shares that results in a breach by the Company of Listing Rule 10.1.

#### **CONTINGENT LIABILITIES**

As stated above, as part of the review of the financial and other covenants, the Directors have reviewed the contingent liabilities referred to in Notes 23(a)(vii) to (xii). A summary of this review is set out below:

*(viii) Claims – General*

The Directors do not believe that any update is necessary in respect of this Note;

*(ix) Claims – Village Roadshow Pictures (USA) Inc*

As announced to ASX on 17 October 2005, these claims have now been settled in full.

*(x) Other contingent liabilities – Film Production*

The Directors do not believe that any update is necessary in respect of this Note.

*(xi) Other contingent liabilities – Income Tax*

The Directors do not believe that any update is necessary in respect of this Note.

*(xii) Claim received from the service company of Mr Peter Ziegler*

The trial concluded in September 2005 and the Company is awaiting judgment.

*(xii) Other contingent liabilities – Claim received from Members and former Members of KPMG*

The Directors do not believe that any update is necessary in respect of this Note.

### *Details of Contingent Liabilities*

Full details of these contingent liabilities are set out on pages 69 and 70 of the 2005 Annual Report. A copy of the 2005 Annual Report can be found on the Company's website ([www.villageroadshow.com.au](http://www.villageroadshow.com.au)) and the ASX website ([www.asx.com.au](http://www.asx.com.au))

### **ADDITIONAL INFORMATION**

Since the issue of the 2005 Financial Statements on 9 September 2005, the following announcements have been made to ASX in respect of the Company:

- This announcement – 15 November 2005
- Cancellation of shares : Form 484 for Employee Share Scheme – 26 October 2005
- Mail out Annual Report/Notice of AGM/proxy – 25 October 2005
- Daily & Final Share Buy-Back Notices : Employee Share Scheme – 25 October 2005
- Argentina Sale and US legal claim settled – 17 October 2005
- Production division restructure completed – 12 October 2005
- Appendix 3C : Announcement of Employee Share Scheme buy-back – 10 October 2005
- Change in substantial holding in Austereo Group Limited (lodged by VRL and VRC) – 6 October 2005
- Change in Director's Interest Notice (W. J. Conn) – 5 October 2005
- Change in Director's Interest Notice (W. J. Conn) – 29 September 2005
- Change in substantial holding in Austereo Group Limited (lodged by VRL and VRC) – 27 September 2005

Copies of each of these as well as 2005 Financial Statements and the 2005 Annual Report are available on the ASX website ([www.asx.com.au](http://www.asx.com.au))