

1 July 2004

**COMPANY UPDATE**  
**ON MARKET ORDINARY SHARE BUY-BACK**

In relation to its proposed buy back of up to 10% of the ordinary shares in Village Roadshow Limited ("Company"), the Company wishes to provide the following information as requested by the Takeovers Panel (in relation to the previously announced application by Boswell Filmgesellschaft mbH to the Takeovers Panel on 15 June 2004) in respect of the:

- Company's capital management objectives;
- proposed funding of the ordinary share buy-back;
- effect of the preference share buy-backs and ordinary share buy-back;
- proposed participation of Village Roadshow Corporation in the ordinary share buy-back; and
- current status of the Company's dividend policy.

Further to our announcement of 16 June 2004, the Company proposes to commence the on market ordinary share buy-back on 2 July 2004, which at the request of the Takeovers Panel, is one trading day after the date of this announcement.

**Capital Management Objectives**

The Company confirms that its capital management objective continues to be to create a more efficient capital structure.

The Company currently has on issue:

- 234,418,904 ordinary shares; and
- 110,129,033 preference shares.

In the event that Directors declare a dividend on the preference shares, pursuant to the Company's constitution, the dividend payable on each preference share is to be the greater of:

- 10.175 cents per share; and
- the dividend paid on ordinary shares plus 3 cents.

The Directors believe that the Company's 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).

Prior to the recent on market buy-backs of preference shares, the dividend entitlement of the preference shares meant that if any dividends were paid on ordinary shares, a total dividend of at least \$25.45m must be paid to holders of preference shares.

To maintain a roughly proportionate payment to ordinary shareholders, and pay the maximum amount possible without increasing the preference dividend, would have required an ordinary dividend of approximately \$16.85m. This would have resulted in a total dividend on both classes of shares of approximately \$42.31m.

Following the recent on market buy-backs of preference shares, the dividend entitlements of the preference shares mean that, if any dividends are paid on ordinary shares, a total dividend of at least \$11.205m must be paid to the holders of preference shares.

To maintain a roughly proportionate payment to ordinary shareholders, and pay the maximum amount possible without increasing the preference dividend, would require an ordinary dividend of approximately \$16.820m. This would result in a total dividend on both classes of shares of \$28.025m.

Relative to the level of net profit after tax and significant items for the year ending 30 June 2004, which is expected to be approximately A\$52m, the Directors continue to believe that this level of dividends continues to be difficult to support.

Accordingly, the Directors believe the 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 and thereby reduces the investment appeal of both ordinary and preference shares.

The original schemes to buy-back all of the preference shares were designed to address this and, if successful, would have reduced the issued capital by 250,214,147 shares (the number of preference shares then on issue) to 234,903,107 ordinary shares.

The recent on-market buy-backs of preference shares have reduced the issued capital by 140,086,114 shares to 345,032,140 shares before any buy-back of ordinary shares. However, the Directors believe these preference share buy-backs have only gone part of the way in addressing the inherent issues with the capital structure. Consistent with the above, the Directors still believe that further buy-backs are appropriate to address the underlying problem.

Village believes that the preference share buy-backs already concluded are likely to have exhausted (at least for the time being) the preference shares available to be bought back at a reasonable price. Some of the remaining preference shares are held by long term investors who Village believes are unlikely to participate in any further buy-backs conducted by Village at current prices. A significant number of preference shares (approximately 7.4m) are held by Village employees under an employee share plan and are not in any practical sense able to participate in any buy-back. There are also other parties who Village believes are not interested in selling their preference shares under any current buy-back. As is the case with most share registers, there are also a number of preference share holders who appear to be uncontactable.

The Directors have therefore concluded that it is unlikely that a further significant buy-back of preference shares would be successful at this time.

From a capital management perspective, the Company believes its objectives can appropriately be met by a buy-back of either or both of ordinary and preference shares.

Accordingly, the Company announced on 28 May 2004 an on-market buy-back of up to 10% of the ordinary shares on issue as a more realistic and preferable alternative to a further preference share buy-back.

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.

Upon completion of the on-market ordinary share buy-back (which would reduce the total issued capital to 321,541,830 shares), the Directors will, circumstances permitting, review further the alternatives open to the Company to achieve its capital management objectives. This will include the consideration of further buy-backs.

The reduction in issued capital arising from the 2 preference share buy-backs and the current on-market buy-back of ordinary shares will also have the effect of increasing earnings per share.

The Company notes that the price of both the ordinary and preference shares has risen substantially since the announcement of the Company's capital management program in July last year.

### **Funding of the Buy-Back**

As disclosed in the Scheme Booklets for the proposed schemes to buy-back all of the preference shares, the funding sources for :

- the initial cash consideration of approximately \$62.6m : were the repatriation of divisional working capital and cash reserves of the Company; and
- for the payments of interest and instalments of principal : were cash reserves, repatriation of divisional working capital, potential sale of surplus assets and/or access to the Company's existing undrawn finance facilities.

As announced on 28 May 2004, the on-market buy-back of 140,086,114 preference shares was at a cost of \$169.4m. Payments in the first year under the proposed schemes of arrangement would have totalled approximately \$171m (comprising the initial payment of \$62.6m, interest of \$25m and principal payment of \$83.4m). This amount was funded utilising working capital repatriated from divisions, the cash reserves of the Company and a partial drawdown of the Company's long term revolving \$100m facility with ANZ Bank ("ANZ Facility").

The buy-back of ordinary shares will be funded primarily out of the ANZ Facility and a new US\$25m (A\$36m) secured facility with CIBC INC ("New Facility"). The New Facility is for a fixed term of 5 years with quarterly principal reductions of US\$1.25m for the first 2 years with a bullet of US\$15m at the end of 5 years. Proceeds from the New Facility have been used to pay out the balance of the ANZ Facility. Funds for the ordinary share buy-back will be drawn down from the ANZ Facility as needed.

### **Effect of Preference Share Buy-Backs and Ordinary Share Buy-Back**

Based on the price of the Company's ordinary shares on ASX on 28 June 2004 of \$1.80, a buy-back of 23.4m ordinary shares at this price will cost the Company approximately \$42.3m.

As previously announced:

- when added to the \$169.4m paid under the two on-market preference share buy-backs, the total amount expended by the Company (and hence the reduction in net assets) arising under the three buy-backs would be in aggregate approximately \$211.7m;

- in the Scheme Booklet dated 12 December 2004, Grant Samuel, in its Independent Expert's Report, valued the equity in the Company in the range \$1.040 billion to \$1.324 billion;
- in the Half Year Report of the Company released on 26 February 2004, the equity of the consolidated group as at 31 December 2003 disclosed in the financial statements was \$1,078,825,000 compared with \$1,077,993,000 in the 30 June 2003 financial statements, i.e. there was no material change between 30 June 2003 and 31 December 2003; and
- the budgeted Net Profit after Tax and Significant items for the year ending 30 June 2004 is expected to be approximately A\$52m.

There is an 'interest cost' related to either cash used for the buy-backs that would otherwise have been earning interest, or debt used to fund the buy-backs. This 'interest cost' is not expected to exceed (on an after tax basis) \$8m 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 three buy-backs will be this 'interest cost' and a reduction in net equity of an amount expended by the Company in undertaking the buy-backs (i.e. a reduction in net equity of approximately \$211.7m, on the assumption that the ordinary shares are bought back at the current price of \$1.80 per share).

A corresponding reduction in the valuation contained in the Grant Samuel Independent Expert's Report would also appear to be appropriate.

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

### **Participation of VRC in Ordinary Share Buy-Back**

Shareholders will be aware that, Village Roadshow Corporation Limited ("VRC"), a company beneficially owned by interests associated with executive directors, Robert Kirby (Chairman), John Kirby (Deputy Chairman) and Graham Burke (managing Director and CEO), has a relevant interest in approximately 50.51% of ordinary shares in the Company.

VRC has advised the Company that it is undecided as to whether or not it will participate in the current on-market buy-back of ordinary shares.

However, the Company notes that under the Company's Group Policy on employees trading in shares of Village Roadshow Limited, the period from 30 June 2004 until the day after the Company's full year results are released to the Australian Stock Exchange Limited (which must occur by Friday 27 August 2004) is a "closed window".

During this period, Designated Officers, which include all Directors, may not deal in securities of the Company. Accordingly, VRC has advised that it will not buy or sell ordinary or preference shares until the day after the release of the 2004 annual result to ASX.

VRC has advised the Company that it will review whether or not it wishes to participate in the buy-back once the "closed window" period is at an end.

### **Dividend Policy**

As shareholders are aware, the Company's businesses and earnings are subject to various risks which result in both volatility and unpredictability (these risks were explained more fully in the Scheme Booklet dated 12 December 2003 sent to shareholders late last year).

As previously advised, the Directors believe it is necessary and prudent to make announcements in respect of dividends at a time when the full audited accounts are available to them (including movements in reserves, cash flows, capital commitments and other relevant matters).

In keeping with prior practice, it will continue to be the Company's policy that the Board will review its dividend policy (and whether or not to declare a dividend and, if so, the amount of such dividend) each year once the financial results for the prior financial year are known. Previously, an announcement would have occurred in the middle of September. With the time for reporting of annual results now reduced from 75 days to 60 days, this is now expected to take place at the end of August.

The payment of dividends on both ordinary and preference shares cannot be assured in any particular year.

Whether or not a dividend is declared in respect of the financial year ending 30 June 2004 will depend on the financial performance, capital requirements, business objectives and prospects of the Company as well as the progress of the Company's capital management initiatives.

The Company confirms that its capital management objective is to enable the distribution of income on a consistent and sustainable basis to holders of both ordinary and preference shares.

The Board therefore believes that restructuring of the Company's capital represents a higher call on the Company's resources than does short term dividend payments.