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Explanatory memorandum for a proposal to simplify the capital structure of Village Roadshow Limited

Important dates

9 August 2010	Transaction announced
24 August 2010	Explanatory memorandum despatched
24 September 2010	Shareholder meetings
27 September 2010	Buy-Back period commences
18 October 2010	Buy-Back period concludes
25 October 2010	Despatch notice of AGM and proxy forms
19 November 2010	Variation notice issued to ASX (“Variation Notice”)
23 November 2010	Entitlement date for AGM voting
25 November 2010	VRL 2010 AGM
29 November 2010	Preference shares cease to be quoted on ASX at close of trading
30 November 2010	Commencement of deferred settlement trading in post-variation ordinary shares
6 December 2010	Record date – last day for VRL to register transfers of preference shares on a pre-reorganisation basis
13 December 2010	Despatch of holding statements for post-Variation ordinary shares
14 December 2010	Commencement of normal trading in post-Variation ordinary shares
20 December 2010	Settlement of all trades conducted on a deferred settlement basis

Village Roadshow Limited (“VRL”) reserves the right to amend this timetable at any time and for any reason. Any amendments will be notified to shareholders via an announcement to ASX.

VRL may buy back shares at prices, volumes and times determined by VRL.

This explanatory memorandum is dated 24 August 2010.

References to time are references to the legal time in Melbourne, Australia.

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Chairman's letter

24 August 2010

Dear shareholder

On behalf of the Directors of Village Roadshow Limited ("VRL"), I am pleased to invite you to consider a proposal to simplify the capital structure of VRL ("Transaction"). The Transaction involves the variation of rights attaching to VRL's preference shares so that each preference share will have the same rights as, and effectively convert into, one VRL ordinary share ("Variation") and an on-market buy-back of some of VRL's preference shares and ordinary shares ("Buy-Back"). The effect of the Variation is that VRL's capital structure will be reorganised so that the preference shares and ordinary shares will be combined into ordinary shares as a single class of quoted securities on the Australian Securities Exchange ("ASX").

The Transaction is consistent with VRL's capital management objective of creating a more efficient capital structure and maximising value for all VRL shareholders. It is also expected to provide shareholders with an enhanced opportunity to sell shares in VRL if they wish to do so.

The Directors of VRL believe that the Transaction is in the best interests of VRL shareholders given the issues associated with the current capital structure of preference shares and ordinary shares. These issues include reduced liquidity and an inflexible approach to dividend policy. In addition, the preference shares are outdated and no new preference shares may be issued on the same terms as the existing preference shares.

The proposal to simplify VRL's capital structure reflects feedback from VRL shareholders. The largest beneficial owner of VRL preference shares has indicated to VRL that it supports the proposal in principle and, subject to reviewing this explanatory memorandum, intends to vote in favour of the Transaction.

VRL's major shareholder, Village Roadshow Corporation Pty Ltd ("VRC"), is controlled by Robert Kirby, John Kirby and Graham Burke, each of whom is an Executive Director of VRL (collectively the "Executive Directors"). VRC and the Executive Directors control approximately 68.2% of VRL's ordinary shares on issue and no preference shares. VRC has indicated to VRL it supports the proposal. VRC intends to vote in favour of the Buy-Back Resolution and Amendment Resolution and is not eligible to vote on the Variation Resolution. VRC and the Executive Directors have indicated to VRL that they do not intend to sell any VRL ordinary shares during the Buy-Back period.

The Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). The maximum number of shares to be bought back will be 35 million (including no more than 11.4 million ordinary shares). VRL may buy back less than this amount of shares (or no shares at all) and shares may be bought back at prices, volumes and times determined by VRL, subject to the ASX Listing Rules.

VRL intends to fund the Buy-Back by increasing its borrowings. VRL has received a credit approved term sheet from Australia and New Zealand Banking Group Limited for additional finance for the Transaction which imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full.

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 27 September 2010 and conclude on 18 October 2010. VRL reserves the right to amend this timetable at any time and for any reason. During the Buy-Back period, if you decide to sell your shares on-market it is possible that VRL will buy back all or some of those shares.

The Transaction requires the approval at a general meeting at which preference shareholders and ordinary shareholders may vote, and separately at a meeting of preference shareholders at which only preference shareholders may vote. The Directors of VRL recommend you vote in favour of the Transaction. You can vote either by attending the shareholder meetings scheduled to be held on Friday, 24 September 2010 at Cinema 11, Jam Factory Complex, 500 Chapel Street, South Yarra VIC 3141 commencing from 9.30am (Melbourne time) or by completing the enclosed proxy forms and returning them by the deadline indicated on each form.

Selling your preference shares or ordinary shares on ASX during the Buy-Back period and therefore potentially having those shares bought back by VRL is voluntary. Please contact your broker if you wish to sell your shares during the Buy-Back period. If you do not wish to sell your shares during the Buy-Back period, you do not need to take any action in relation to the Buy-Back.

This explanatory memorandum contains details of the proposed Transaction, the indicative impact of the Transaction on VRL and its controlled entities ("VRL Group"), information to assist you in making a decision on how to vote in relation to the Transaction and to assist you in making a decision whether or not to sell shares during the Buy-Back Period.

Before you decide whether to vote in favour of the Transaction or sell your shares during the Buy-Back period, you should read this explanatory memorandum and seek professional advice in relation to your particular circumstances.

Yours sincerely

A handwritten signature in black ink, appearing to be 'R Kirby', written in a cursive style.

Robert Kirby
Chairman
Village Roadshow Limited

Meeting details

A general meeting of shareholders of VRL will be held at Cinema 11, Jam Factory Complex, 500 Chapel Street, South Yarra VIC 3141 on 24 September 2010 at 9.30am (Melbourne time) ("General Meeting"). Appendix A contains a notice of the General Meeting.

A meeting of preference shareholders ("Preference Shareholder Meeting") will commence immediately upon the completion or earlier adjournment of the General Meeting at the same location. Appendix B contains a notice of the Preference Shareholder Meeting.

The purpose of the General Meeting is to seek approval from the shareholders:

- by resolution for VRL to conduct an on-market buy-back of shares up to 35 million shares in VRL (representing 21.0% of the total number of preference shares and ordinary shares on issue) subject to the maximum number of ordinary shares to be bought back not exceeding 11.4 million (representing 10.0% of the total number of ordinary shares on issue) ("Buy-Back Resolution"); and
- by special resolution to authorise the variation (through the issue of a Variation Notice) of the rights attaching to the preference shares through an amendment to VRL's Articles of Association. The Variation will have the effect that each preference share will have the same rights as, and effectively convert into, one VRL ordinary share ("Amendment Resolution").

The Buy-Back Resolution will give VRL the ability to proceed with an on-market buy-back in respect of up to 35 million shares, comprising up to 11.4 million ordinary shares (representing 10.0% of the total number of ordinary shares on issue), preference shares or a combination of ordinary shares and preference shares.

However, the Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

VRL reserves the right not to buy back more than the threshold amount of 11 million shares in VRL or not to buy back any shares at all for any reason.

The purpose of the Preference Shareholder Meeting is to seek approval from preference shareholders by special resolution to vary the rights of VRL's preference shares so that each preference share will have the same rights as, and otherwise be indistinguishable to, one VRL ordinary share ("Variation Resolution").

A summary of the approval thresholds and the shareholders who are eligible to participate in each resolution is contained in the table below:

Resolution	Shareholders entitled to vote	Approval threshold
Buy-Back Resolution	Ordinary shareholders and preference shareholders	Resolution (more than 50%*)
Amendment Resolution	Ordinary shareholders and preference shareholders	Special resolution (75%*)
Variation Resolution	Preference shareholders only	Special resolution (75%*)

* Of votes cast by shareholders attending and voting in person or by proxy at the relevant meeting.

The resolutions to approve the Buy-Back Resolution and the Amendment Resolution are contained in the formal notice of the General Meeting in Appendix A. The resolution to approve the Variation Resolution is contained in the formal notice of the Preference Shareholder Meeting in Appendix B.

Voting eligibility and procedures

1. If you are unable to attend the General Meeting and/or the Preference Shareholder Meeting (as the case may be), you may appoint a proxy to attend the meeting on your behalf. See the section below headed "Appointment of Proxies".
2. If you are a shareholder attending a meeting, **please bring your bar coded Proxy Form** to assist in shareholder identification and registration.
3. At the General Meeting, on a show of hands, each shareholder present in person or by proxy, representative or attorney is entitled to one vote. On a poll every shareholder present in person or by proxy, representative or attorney has one vote for every share held (irrespective of the class of the share).
4. At the Preference Shareholder Meeting, on a show of hands, each preference shareholder present in person or by proxy, representative or attorney is entitled to one vote. On a poll every preference shareholder present in person or by proxy, representative or attorney has one vote for every preference share held.
5. If two or more joint shareholders purport to vote, the vote of the joint holder whose name appears first in the Register will be accepted to the exclusion of the other joint holder or holders.
6. A shareholder or proxy which is a body corporate may appoint an individual as its representative as provided by the Corporations Act.
7. In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) and ASTC Settlement Rule 5.6.1, VRL ordinary shares and VRL preference shares that are quoted on ASX at 7.00pm (Melbourne time) on Wednesday, 22 September 2010 will be taken, for the purposes of the above meetings, to be held by the persons who held them at that time. Only those persons will be entitled to vote at the General Meeting and/or the Preference Shareholder Meeting (as the case may be) on Friday, 24 September 2010.

Appointment of proxies

1. Each shareholder entitled to attend and vote at a meeting is entitled to appoint a proxy for that meeting. If the shareholder is entitled to cast 2 or more votes at a meeting, they may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. The person(s) appointed may be an individual or a body corporate. If more than one proxy is appointed and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the shareholder's votes. If more than one proxy is appointed, neither proxy shall have the right to vote on a show of hands but only on a poll.
2. If a shareholder is entitled to attend both meetings and wishes to attend by proxy at those meetings, a separate proxy form must be completed and returned for each meeting.
3. A proxy need not be a shareholder of VRL.
4. In the case of joint holders all should sign the proxy form.
5. In the case of corporations, proxies must be executed in accordance with section 127 of the Corporations Act or be signed by an authorised officer or attorney.
6. A proxy form signed under a power of attorney, to be valid, must be accompanied by the signed power of attorney, or certified copy of such power of attorney.
7. If you mark the abstention box on the proxy form for any item of business, you are directing your proxy not to vote on a show of hands or on a poll and your shares will not be counted in calculating the required majority on a poll. If you do not indicate how your proxy is to vote, they may vote or abstain from voting as they see fit.

8. If the proxy is signed by the shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman may either act as proxy or complete the proxy by inserting the names of one or more Directors. The Chairman intends to vote all undirected proxies in favour of all resolutions.
9. The proxy form as applicable to ordinary shareholders and preference shareholders (as the case may be) for each meeting are enclosed with this explanatory memorandum. To be valid, the proxy form must be completed and deposited, together with power of attorney (if any) under which it is signed or a certified copy of such power of attorney, at VRL's share registry,

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452 Johnston Street
Abbotsford Vic 3067**

or returned to the share registry in the reply paid envelope provided so that it is **received not later than 12.00 noon (Melbourne time) on Wednesday, 22 September 2010**. Alternatively, the proxy may be lodged by facsimile with VRL's share registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) **provided it is received by the same time**.

10. Custodian voting - for Intermediary Online subscribers only (custodians) please visit **www.intermediaryonline.com** to submit your voting intentions.

Key questions

1. What is the Transaction?

The Transaction comprises two components:

- the variation of rights attaching to VRL's preference shares so that each preference share will have the same rights as, and effectively convert into, one VRL ordinary share; and
- an on-market buy-back of some of VRL's preference shares and ordinary shares.

In addition to shareholder approval of the Amendment Resolution and Variation Resolution, the Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue) under the Buy-Back. Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

The maximum number of ordinary shares that may be bought back is 11.4 million representing 10.0% of issued ordinary shares.

The effect of the Variation is that VRL's capital structure will be reorganised so that the preference shares and ordinary shares will be combined into ordinary shares as a single class of ASX quoted securities.

The Buy-Back is conditional on shareholders passing the Buy-Back Resolution, Amendment Resolution and Variation Resolution. If all of these resolutions are approved, VRL may, at its discretion, buy back shares on ASX during the Buy-Back period. During this period if shareholders decide to sell their shares on-market it is possible that all or some of those shares will be bought back. All shares acquired by VRL on ASX will be subsequently cancelled and this will reduce the total number of VRL shares on issue.

If less than 11 million shares are bought back during the Buy-Back period, the shares bought back will still be cancelled but the Variation will not be implemented.

Both the Variation and the Buy-Back require the approval by resolution of ordinary shareholders and preference shareholders.

2. What is the impact of the Transaction on VRL?

If the Transaction is implemented it is expected to have a number of impacts on VRL. In summary, VRL believes it may:

- eliminate the preference shares as a class of share capital in VRL;
- enhance the flexibility of VRL's dividend policy in the future;
- increase the VRL Group's net debt, gearing and interest expense;
- reduce the total number of shares on issue;
- improve VRL's total earnings per share¹;
- improve liquidity in the trading of VRL's ordinary shares on ASX;
- improve VRL's representation in the All Ordinaries index; and
- decrease the voting power of current holders of ordinary shares (including VRC and the Executive Directors) and increase the voting power of preference shareholders (as the holders of post-Variation ordinary shares) who do not sell all of their shares in the Buy-Back.

For further information on the expected impact of the Transaction on VRL, refer to section 6.

Note:

- 1 Total earnings per share represents net profit attributable to members of VRL excluding material items and discontinued operations divided by the weighted average total number of ordinary shares and preference shares on issue

3. Why is VRL undertaking the Transaction?

VRL's capital management objective is to create a more efficient capital structure and to maximise value for all VRL shareholders. The Directors believe that the current capital structure contributes to VRL's underlying value not being fully reflected in the market prices for preference shares and ordinary shares. The Directors also believe that the current capital structure inhibits the adoption of a more flexible dividend policy.

The Directors believe that if VRL had one class of shares, it should improve the efficiency of VRL's capital structure and enhance the investment appeal of shares in VRL. This is on the basis that this should:

- remove an outdated class of shares that has low liquidity and a class of share capital that cannot be expanded;
- result in a capital structure that can facilitate a more flexible dividend policy in the future;
- address concerns previously expressed by shareholders in relation to VRL's dual share class structure;
- improve the liquidity in the trading of VRL's ordinary shares on ASX; and
- improve VRL's representation in the All Ordinaries index.

In addition, the Transaction, through the Buy-Back provides shareholders with an enhanced opportunity to sell shares in VRL if they wish to do so.

The Directors of VRL believe that the Variation and Buy-Back are consistent with seeking to achieve these objectives.

For further information on VRL's capital management objectives and the rationale for the Transaction, refer to sections 1.14, 2.2 and 2.5.

4. What do the Directors recommend?

The Directors of VRL recommend that shareholders vote in favour of the Buy-Back Resolution, Amendment Resolution and Variation Resolution. For further information on the Directors' recommendation, refer to section 2.8.

The Transaction is consistent with VRL's capital management objective of creating a more efficient capital structure and maximising value for all VRL shareholders.

The Directors of VRL believe that the Transaction is in the best interests of VRL shareholders given the issues associated with the current capital structure of preference shares and ordinary shares. These issues include reduced liquidity and an inflexible approach to dividend policy. In addition, the preference shares are outdated and no new preference shares may be issued on the same terms as existing preference shares.

The Directors of VRL also believe that the Transaction may give preference shareholders flexibility to sell some of their shares or to have the rights attaching to their preference shares varied so that they have the same rights as ordinary shares.

The proposal to simplify VRL's capital structure reflects previous feedback from VRL shareholders. The largest beneficial owner of VRL preference shares has indicated to VRL that it supports the proposal in principle and, subject to reviewing this explanatory memorandum, intends to vote in favour of the Transaction. The largest beneficial owners of VRL ordinary shares, VRC has indicated to VRL that it supports the proposal. VRC intends to vote in favour of the Buy-Back Resolution and the Amendment Resolution. VRC is not eligible to vote on the Variation Resolution.

For information on the advantages and disadvantages of the Transaction, see section 3.

5. When and where will the shareholder meetings be held?

The General Meeting is scheduled to be held on Friday, 24 September 2010 at the Cinema 11, Jam Factory Complex, 500 Chapel Street, South Yarra VIC 3141, commencing at 9.30am (Melbourne time). The Preference Shareholder Meeting is scheduled to be held at the same place immediately after the conclusion or earlier adjournment of the General Meeting.

For further information on shareholder meetings, refer to page 7.

6. Who is entitled to vote at the shareholder meetings?

VRL preference shareholders and ordinary shareholders who are registered as such on the VRL share register at 7.00pm (Melbourne time) on Wednesday, 22 September 2010, may vote at the General Meeting.

VRL preference shareholders who are registered as such on the VRL share register at 7.00pm (Melbourne time) on Wednesday, 22 September 2010, may vote at the Preference Shareholder Meeting.

For further information on voting eligibility at shareholder meetings, refer to page 7.

7. Is voting compulsory?

No, voting is not compulsory. However, each VRL shareholder's vote is important. Shareholders can vote either by attending the shareholder meetings or by completing the enclosed proxy forms and returning them no later than 12.00 noon (Melbourne time) on Wednesday, 22 September 2010.

For further information on the Directors' recommendation, refer to section 2.8.

Variation key questions

8. What is the Variation?

The Variation is a variation of rights attaching to VRL's preference shares so that each preference share will have the same rights as, and otherwise be indistinguishable from, one VRL ordinary share.

To implement the Variation, VRL proposes two shareholder resolutions:

- the Amendment Resolution to be proposed at the General Meeting to amend VRL's Articles of Association to provide VRL with a mechanism whereby it may vary the rights attached to the preference shares in the manner contemplated; and
- subject to the passing of the Amendment Resolution, a Variation Resolution to be proposed at the Preference Shareholder Meeting to approve the variation of the rights attaching to VRL's preference shares in the manner contemplated.

The Amendment Resolution provides VRL with a mechanism where it must, on or before 30 days after the proposed amendments to the Articles of Association take effect, provide irrevocable notice to ASX that the rights attached to all preference shares will be varied and effectively converted into ordinary

shares. However, the Amendment Resolution (and in turn, the Variation) is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

Subject to the satisfaction of the conditions precedent to the Variation (including the passing of the Buy-Back Resolution), the effect of the Variation will be that VRL's capital structure is reorganised so that the preference shares and ordinary shares are combined into ordinary shares as a single class of ASX quoted securities comprising ordinary shares.

The Variation requires the approval by special resolution of ordinary shareholders and preference shareholders and the sanction by special resolution of preference shareholders. Such approvals and sanction are proposed to be obtained through the Amendment Resolution and the Variation Resolution respectively.

9. *What are the advantages and disadvantages of the Variation?*

VRL believes that the potential advantages of the Variation (if it is implemented) might include:

- a more efficient capital structure to maximise value for all VRL shareholders;
- the number of VRL ordinary shares on issue will increase, increasing the liquidity of VRL ordinary shares on ASX;
- improving VRL's representation in the All Ordinaries index, which may result in higher liquidity;
- the elimination of the preference shares as a class of share capital resulting in a capital structure that can facilitate a more flexible dividend policy in the future. For further information on dividends, refer to sections 1.12 and 6.8;
- reduced administrative costs as a result of removing VRL's dual class share structure;
- in the case of ordinary shareholders, your return in the event VRL is wound up may increase; and
- in the case of preference shareholders, your right to vote your shares will increase.

VRL believes that the potential disadvantages of the Variation (if it is implemented) might include:

- in the case of existing ordinary shares, your voting power in VRL as a percentage of all shares including post-Variation ordinary shares will decrease;
- in the case of preference shareholders (as holders of post-Variation ordinary shares), you will no longer have priority to receiving greater dividends than ordinary shareholders. For further information, refer to sections 1.12 and 6.8; and
- in the case of preference shareholders, your return in the event VRL is wound up may decrease.

For further information on the advantages and disadvantages of the Variation, refer to section 3.1 of this explanatory memorandum.

10. *How has the share price of preference shares traded relative to share price of ordinary shares?*

At various times during the five years prior to the announcement of the Transaction, the share price of the preference shares (as quoted on ASX) has at different times been at a premium or at a discount to the ordinary share price but on average has traded at approximately an 8% discount to the share price of ordinary shares (based on the average of closing prices during that period).

Likely factors that have contributed to the fluctuation in relative share prices of the preference shares and ordinary shares has been VRL shareholders' assessment of the relative attractiveness of the terms of the preference shares and ordinary shares (refer to section 2.3 for a comparison) having regard to the outlook for VRL and the economy in general, and stock market dynamics at the time. Over this period, the Directors believe that increasing illiquidity of each class of share has also likely been a contributing factor to the fluctuation.

More recently, the average price differential between the preference shares and ordinary shares has narrowed. In October 2009, the Directors of VRL stated that they believed that if the preference shares were eliminated as a class it would improve the efficiency of the company's capital structure. Since that date the preference shares have traded on average at a slight premium to the ordinary shares, potentially driven by the expectation that VRL may eliminate the preference shares as a separate class to ordinary shares by undertaking further buy-backs of preference shares.

The ordinary shares and preference shares have been less liquid over the last twelve months with the only significant volume occurring during the previous on-market buy-back conducted by VRL in November 2009 which involved both ordinary shares and preference shares. During the buyback the share price of preference shares traded at a 1% discount, on average, to the share price of ordinary shares (based on the average of closing prices during that period).

Since the announcement of the Transaction the share prices of the preference shares and the ordinary shares have been broadly in line.

11. What voting majority is required to approve the Variation?

In order for the Variation to be approved, ordinary shareholders and preference shareholders must approve the Amendment Resolution by special resolution at the General Meeting (in person or by proxy) and preference shareholders must approve the Variation Resolution by special resolution at the Preference Shareholder Meeting (in person or by proxy). Both resolutions must be approved by at least 75% of the total number of votes cast.

12. Is the Variation conditional upon certain events occurring?

The Variation is conditional upon shareholder approval of all resolutions (including the Buy-Back Resolution) and VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue). If any of these conditions are not satisfied, the Variation will not proceed.

Buy-Back key questions

13. When is the Buy-Back period?

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 27 September 2010 and conclude on 18 October 2010. VRL reserves the right to amend this timetable at any time and for any reason. VRL may buy back shares at prices, volumes and times determined by VRL, subject to the ASX Listing Rules.

14. What is the size of the Buy-Back?

VRL intends to buy back some preference shares and ordinary shares.

Under the Buy-Back Resolution, VRL is seeking shareholder approval to buy back up to 35 million shares in total (representing 21.0% of the total number of preference shares and ordinary shares on issue). A

combination of preference shares and ordinary shares are expected to be bought back with the number of ordinary shares to be bought back limited to 11.4 million (representing 10.0% of the total number of ordinary shares on issue).

However, the Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

This threshold amount has been determined having regard to the funding for the Transaction being conditional on VRC and the Executive Directors' relevant interest in the ordinary shares remaining above 50%.

VRL reserves the right not to buy back more than the threshold amount of 11 million shares in VRL or not to buy back any shares at all for any reason.

15. How was the threshold amount of shares determined?

The funding for the Transaction is conditional on VRC and the Executive Directors' relevant interest in the ordinary shares remaining above 50%.

VRC and the Executive Directors currently control approximately 68.2% of VRL's ordinary shares on issue and no preference shares. In the absence of any buy-back of shares, a variation of rights attaching to VRL's preference shares would result in VRC and the Executive Directors' relevant interest in the ordinary shares decreasing to 46.8%. Accordingly, to satisfy the above requirement, the Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL. This condition will ensure that VRC and the Executive Directors' relevant interest in the ordinary shares remains above 50%. For further information, refer to section 5.

Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less.

16. How much will VRL spend on the Buy-Back?

The amount VRL will spend on the Buy-Back cannot be determined at this time as it depends on the actual number of preference shares and ordinary shares bought back (refer to question 14) and the price paid to buy back those shares.

The price paid by VRL will depend on the 'market price' and, under ASX Listing Rule 7.33, VRL may only buy back shares under the Buy-Back at a price which is not more than 5% above the average of the 'market price' for each of the preference shares and ordinary shares calculated over the last 5 days in which sales of these shares were recorded before the day on which the purchase under the Buy-Back is made.

Subject to the ASX Listing Rules, shares may be bought back at prices, volumes and times determined by VRL to be appropriate from time to time having regard to:

- market conditions;
- the prevailing share price of VRL's preference shares and ordinary shares;
- liquidity of VRL's preference shares and ordinary shares (ie. volumes traded on ASX);
- availability of funding;
- alternative uses of funds, such as acquisition opportunities, that may arise during the Buy-Back period; and

- any other matter considered relevant by VRL at the time, including outcomes of the shareholder meetings for the Transaction.

For further information on the impact of the Buy-Back on VRL, refer to section 6.

17. How will VRL fund the Buy-Back?

VRL intends to fund the Buy-Back by increasing its borrowings.

VRL has received a credit approved term sheet ("VRL Term Sheet") from Australia and New Zealand Banking Group Limited ("ANZ") in relation to a modification of VRL's existing corporate debt facility with ANZ ("the VRL Facility") for the purpose of funding the Buy-Back. The VRL Term Sheet is subject to due diligence and satisfactory documentation.

The VRL Term Sheet includes a number of conditions precedent which must be satisfied or waived before the facility can be drawn down for the Buy-Back.

The VRL Term Sheet contemplates additional finance that can only be used in relation to the Buy-Back. VRL expects that the relevant documentation will be finalised prior to the General Meeting and Preference Shareholder Meeting on 24 September 2010 and expects that the relevant conditions precedent will be satisfied or waived prior to the start of the Buy-Back period.

The VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full (assuming that the threshold amount of 11 million shares in VRL are bought back). VRL has undertaken that, if required, it will sell assets to ensure that it meets its repayment obligations.

18. How does the Buy-Back process work?

The Buy-Back will be conducted on ASX and VRL intends to buy-back preference shares and ordinary shares in the ordinary course of trading, at prices, volumes and times considered appropriate by VRL, subject to the ASX Listing Rules.

If you sell your shares on ASX during the Buy-Back period, you will not know whether you are selling your shares to VRL under the Buy-Back or to any other buyer of the shares.

The Buy-Back requires the passing of the Buy-Back Resolution.

For further information on how the Buy-Back process works, refer to section 2.4.

19. Why are shareholders required to vote on the Buy-Back?

Section 257B of the Corporations Act permits a company to undertake an on-market buy-back for not more than 10% of the smallest number of votes attaching to a company's voting shares (ordinary shares) at any time during the previous 12 months, without the requirement for shareholder approval (the "10/12 limit").

On 27 November 2009, VRL completed an on-market buy-back of 12,690,800 ordinary shares (representing 10% of the total number of ordinary shares on issue as at that time) and 45 million preference shares (representing 46.1% of the total number of preference shares on issue as at that time).

As a result, the number of ordinary shares that VRL is proposing to buy back under the Buy-Back will exceed the 10/12 limit and shareholder approval under section 257C of the Corporations Act is required for the Buy-Back to proceed.

20. What voting majority is required to approve the Buy-Back?

In order for the Buy-Back to be approved, preference shareholders and ordinary shareholders will have to vote in favour of the Buy-Back Resolution at the General Meeting (in person or by proxy). The resolution must be approved by a simple majority (more than 50%) of the total number of votes cast.

In addition, the Amendment Resolution and the Variation Resolution must be passed.

21. Is the Buy-Back conditional upon certain events occurring?

The Buy-Back is conditional upon shareholder approval of the Buy-Back Resolution, the Amendment Resolution and the Variation Resolution. If any resolutions are not passed, the Buy-Back will not proceed.

22. May I participate in the Buy-Back?

You may sell shares during the Buy-Back period if you hold or own ordinary shares or preference shares. If you sell your shares on ASX during the Buy-Back period, you will not know whether you are selling your shares to VRL under the Buy-Back or to another buyer.

23. Do I have to participate?

No. The decision to sell your shares during the Buy-Back period is voluntary.

If you choose not to sell and the Buy-Back is completed, the number of VRL shares you hold will not change as a result of the Buy-Back.

24. How do I participate in the Buy-Back?

You may participate in the Buy-Back by selling your preference shares or ordinary shares on ASX during the Buy-Back period. You should contact your broker for details of how to sell your shares.

If you sell your shares during the Buy-Back period, you will not know whether you are selling your shares to VRL under the Buy-Back or to any other buyer.

25. Will VRC participate in the Buy-Back?

VRC and the Executive Directors control approximately 68.2% of VRL's ordinary shares on issue and no preference shares. VRC and the Executive Directors have confirmed to VRL that they do not intend to sell any VRL ordinary shares during the Buy-Back period. If VRL buys back preference shares and ordinary shares totalling 11 million shares in VRL and the Variation is implemented, VRC and the Executive Directors' relevant interest in VRL's ordinary shares will decrease from approximately 68.2% to 50.1%.

If VRL buys back preference shares and ordinary shares totalling 35 million shares in VRL and the Variation is implemented, VRC and the Executive Directors' relevant interest in VRL's ordinary shares will decrease from approximately 68.2% to 59.2%.

For further information on the impact of the Transaction on VRC and the Executive Directors' voting power, refer to section 5.

26. What are the advantages and disadvantages of participating in the Buy-Back?

Selling shares during the Buy-Back period is completely your decision. If you are unsure as to what to do, you should read this explanatory memorandum and seek professional advice.

This explanatory memorandum has been prepared without taking into account your particular objectives, financial situation or needs. VRL and the Directors make no recommendation as to whether you should sell or not. VRL is not licensed to provide financial product advice.

VRL believes that the potential advantages of selling during the Buy-Back period might include:

- you may consider your VRL shares to be worth less than the price that may be realised from selling on-market during the Buy-Back period;
- it may provide you with liquidity and an opportunity to sell a relatively large volume of shares without negatively impacting the market price for VRL shares;
- it may provide you with an opportunity to eliminate your exposure to the ongoing risks associated with remaining a VRL shareholder. As set out in section 1.11, the market prices of VRL shares have fluctuated significantly in recent years;
- it may provide you with an opportunity to receive cash for your shares;
- you may be able to sell some or all of your shares to suit your own circumstances; and
- the sale price received may be higher than historical trading share prices.

VRL believes that the potential disadvantages of selling during the Buy-Back period might include:

- you may consider your VRL shares to be worth more than the price that may be realised from selling on-market during the Buy-Back period;
- the sale price received may be lower than historical trading share prices;
- there may be a potential transfer of value to continuing shareholders;
- you will not benefit from:
 - any future increase (if any) in the market price of VRL shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years;
 - any future dividends paid by VRL, subject to any restrictions on future dividends under the conditions of the VRL Facility. As set out in section 1.8, no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full. However, if the preference shares are eliminated as a separate class to ordinary shares, the Directors of VRL believe this will facilitate a more flexible dividend policy in the future;
 - any potential improvement in total earnings per share. For further information on the indicative impact on VRL's total earnings per share, refer to section 6.3; and
 - any offer which may be made for VRL shares in the future;
 - the potential advantages of the Variation (refer to question 9); and
- you will incur brokerage costs from selling on-market.

For further information on the advantages and disadvantages of the Buy-Back for participating shareholders, refer to section 3.2.

27. What are the advantages and disadvantages of not participating in the Buy-Back?

Selling during the Buy-Back period is completely your decision. If you are unsure as to what to do, you should read this explanatory memorandum and seek professional advice.

This explanatory memorandum has been prepared without taking into account your particular objectives, financial situation or needs. VRL and the Directors make no recommendation as to whether you should participate or not. VRL is not licensed to provide financial product advice.

VRL believes that the potential advantages of not selling during the Buy-Back period might include:

- a potential improvement in total earnings per share. For further information on the indicative impact on VRL's total earnings per share, refer to section 6.3;
- there may be a potential transfer of value to continuing shareholders;
- in the case of the holders of ordinary shares, your voting power in VRL may increase as a result of the Buy-Back component of the Transaction. As set out in section 3.1(b), if the Variation is implemented, existing ordinary shareholders' voting power will decrease as a result of the Variation and the Transaction; and
- you will benefit from:
 - any future increase (if any) in the market price of VRL shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years;
 - any future dividends paid by VRL, subject to any restrictions on future dividends under the conditions of the VRL Facility. As set out in section 1.8, VRL has declared that no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full. However, if the preference shares are eliminated as a separate class to ordinary shares, the Directors of VRL believe this will facilitate a more flexible dividend policy in the future; and
 - any offer which may be made for VRL shares in the future; and
 - the potential advantages of the Variation (refer to question 9).

VRL believes that the potential disadvantages of not participating in the Buy-Back might include:

- you will own shares in a company which is expected to have higher net debt, gearing and interest expense. Both the terms of the additional debt and the effect of higher gearing reduce VRL's financial flexibility. If VRL wants to increase its financial flexibility in the future it may need to reduce its net debt, which could be achieved by divesting certain assets;
- the liquidity of VRL shares on ASX is expected to further decrease after the Buy-Back component of the Transaction. As set out in section 3.1, if the Variation is implemented, the liquidity of VRL shares on ASX is expected to increase as a result of the Variation and the Transaction;
- VRC's voting power is expected to increase, as a result of the Buy-Back component of the Transaction. As set out in section 3.1, if the Variation is implemented, VRC's voting power is expected to decrease as a result of the Variation and the Transaction;
- restrictions on future dividends paid by VRL under the conditions of the VRL Facility. As set out in section 1.8, no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full;
- VRL is expected to have reduced representation in the All Ordinaries index, as a result of the Buy-Back component of the Transaction. As set out in section 3.1, if the Variation is implemented, VRL's representation in the All Ordinaries is expected to increase as a result of the Variation and the Transaction; and
- you will remain exposed to the risks associated with being a VRL shareholder. As set out in section 1.11, the market prices of VRL shares have fluctuated significantly in recent years.

For further information on the advantages and disadvantages of the Buy-Back for non-participating shareholders, refer to section 3.3 of this explanatory memorandum.

Other key questions

28. What are the tax implications of the Variation for preference shareholders?

The income tax implications can vary depending on the nature and characteristics of participating shareholders and their specific circumstances.

VRL has obtained a tax opinion from Greenwoods & Freehills Pty Ltd which concludes that the variation of the rights attaching to the preference shares will not result in a taxable revenue or capital gain to shareholders. The Commissioner of Taxation has previously issued a Public Taxation Ruling which supports this conclusion.

For further information on the tax implications for VRL shareholders, refer to section 7.1 which contains a copy of the tax opinion from Greenwoods & Freehills Pty Ltd.

29. What are the tax implications of the Buy-Back for shareholders?

The income tax implications can vary depending on the nature and characteristics of participating shareholders and their specific circumstances. It is therefore important that you seek professional tax advice to take into account your particular circumstances.

For many VRL shareholders, the proceeds received from selling during the Buy-Back period will be treated as capital for tax purposes (unless shareholders hold their shares on revenue account) and the tax implications of selling your shares on ASX into the Buy-Back should be the same as if you were otherwise selling those shares on ASX for the same price.

These shareholders will:

- make a capital gain if the capital proceeds received for their VRL shares are greater than the cost base of their VRL shares; or
- make a capital loss if the reduced cost base of their VRL shares is greater than the capital proceeds received for their VRL shares.

For further information on the tax implications for VRL shareholders, refer to section 7.

30. What else should I consider?

You should read this explanatory memorandum, which contains details of the proposed Transaction, the potential advantages and disadvantages of the Transaction and the indicative impact of the Transaction on VRL.

VRL and the Directors of VRL are not making any recommendation or giving any advice on the value of VRL shares, or whether (or how) you should sell your VRL shares. You should seek your own professional advice.

1. About the VRL Group

1.1 General description of the VRL Group

Village Roadshow first commenced business in 1954 in Melbourne, Australia and VRL has been listed on ASX since 1988. Based in Melbourne, the VRL Group is a leading international entertainment and media company with core businesses in Theme Parks, Attractions, Film Distribution, Cinema Exhibition, Radio and Film Production and Music. All of these businesses have well recognised retail brands and together they are a diversified portfolio of entertainment and media assets.

1.2 Theme Parks

The VRL Group has been involved in theme parks since 1989 and is Australia's largest theme park owner and operator.

On Queensland's Gold Coast, the VRL Group owns:

- Warner Bros. Movie World;
- Sea World;
- Wet 'n' Wild Water World;
- Sea World Resort and Water Park;
- Australian Outback Spectacular; and
- Paradise Country and Village Roadshow Studios.

The VRL Group's overseas theme parks include:

- Wet 'n' Wild Water World in Kapolei, Hawaii, USA; and
- Wet 'n' Wild Water World in Phoenix, Arizona, USA.

1.3 Attractions

The VRL Group's attractions include:

- Sydney Aquarium;
- Sydney Wildlife World;
- Sydney Tower Observatory and Sky Tower;
- Shark Dive Extreme at Manly Oceanworld; and
- the tourist fauna park, Hamilton Island Wildlife Park, Queensland; and
- Kelly Tarlton's Antarctic Encounter and Underwater World in Auckland, New Zealand.

1.4 Film Distribution

Originally started by Village Roadshow in the late 1960's, Roadshow Films has grown into Australasia's largest independent film distributor – distributing films to all cinemas nationally and DVDs to major retailers.

Roadshow Films is a leading distributor of filmed entertainment in Australia. Roadshow Films enjoys long standing distribution agreements and relationships with key film suppliers, such as

Warner Bros. (since 1971), ABC, BBC, The Weinstein Company and Village Roadshow Pictures. The VRL Group also has film distribution operations in Singapore.

1.5 Cinema Exhibition

Showing movies has a long tradition within Village Roadshow, having started in 1954 with drive-in cinemas. Today Village Cinemas jointly owns and operates 506 cinema screens across 50 sites in Australia and has 73 cinema screens at 9 sites in Singapore and 45 cinema screens at 6 sites at Village Roadshow Gold Class Cinemas in the United States. The VRL Group continues to lead industry trends including stadium seating, digital projection, 3D blockbuster movies and the growth category of premium cinemas (Gold Class).

In Australia, the multiplex cinema screens are predominantly jointly owned (50%) with Greater Union (a wholly owned subsidiary of Amalgamated Holdings Limited).

1.6 Radio

Village Roadshow started Australia's first FM radio station, 2Day FM, in 1979. Now, through a majority shareholding of 52.52% in ASX listed Austereo Group Limited (ASX: AEO), the VRL Group controls Australia's leading FM radio networks, Today FM and Triple M.

With two radio stations in each key mainland capital city and a strong line-up of stars driving continued rating success, Austereo has over 5 million radio listeners* with leading radio stations in Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and Newcastle. With over one million monthly unique browsers online, Austereo is also number one in the online radio category.**

*Source: Austereo's FY10 results

**Source: Nielsen NetRatings

1.7 Film Production and Music

Village Roadshow has been involved in film production since the 1960's. Currently VRL has a 40.89% interest in Village Roadshow Entertainment Group ("VREG") which owns:

- Hollywood movie producer, Village Roadshow Pictures ("VRP"). Since its inception in 1998, VRP has produced 66 films with global box office takings of over US\$10 billion, including blockbuster hits such as *The Matrix* trilogy, *Sex and the City 2*, *Sherlock Holmes*, *I Am Legend*, the *Ocean's* series, *Happy Feet*, *Mystic River*, *Gran Torino*, *Analyze This*, *Miss Congeniality*, *Two Weeks' Notice* and *Charlie and the Chocolate Factory*; and
- Concord Music Group, the world's largest independent music company, with a catalogue of over 5,000 albums, including titles by artists such as *Ray Charles*, *Creedence Clearwater Revival* and *Little Richard*.

1.8 VRL's 30 June 2010 results

On 16 August 2010, VRL announced an attributable operating profit after tax before material items and discontinued operations for the year ended 30 June 2010 of \$65.9 million, compared to \$56.0 million for the prior year.

EBITDA from operations of \$254.5 million is up 8.2% on the prior period of \$235.2 million reflecting strength in core operating divisions. Attributable net profit after tax amounted to \$94.8 million compared to \$12.6 million in the prior period, after including material items and discontinued operations.

The key points from the 2010 results were:

- Australian Cinema Exhibition delivered outstanding results off a record box office year;
- Record park attendances achieved at the Australian Theme Parks from the continued success of the season pass sales program;
- Challenging retail sector for DVDs impacted profitability of the Film Distribution division;
- Austereo maintained its ratings success in the third and fourth radio survey of 2010;
- Successful completion of the buyback of 12.7 million ordinary shares and 45 million preference shares at a cost of \$109.9 million the first half ;
- Completion of the sale of Greece and Czech Republic businesses resulting in a profit after tax of \$25.6 million in the first half;
- Disappointing results from Gold Class USA business resulting from impact of economic circumstances in USA; and
- VRL stated that no final dividend is payable for the year ended 30 June 2010.

For further information on VRL's 30 June 2010 results, go to www.villageroadshow.com.au

1.9 Recent ASX announcements

On 28 May 2010, VRL announced Village Roadshow Pictures ("VRP") had reached agreement with its banking syndicate for a new, three year, US\$1 billion film financing facility. VRL owns 40.89% of Village Roadshow Entertainment Group ("VREG"), the parent of VRP. The new facility replaced and extended VRP's existing film financing arrangements. The new facility also resulted in VRL being released from its US\$7.5 million guarantee to JP Morgan Chase and also being released from a non-financial guarantee previously provided to VRP's banking syndicate. As part of the refinancing, the VRL Group provided additional financial support to VREG by way of a new loan of US\$17.5 million on favourable commercial terms, and an additional guarantee, together with partial payment support, in relation to US\$20 million of new financing obtained by VREG. As advised to ASX on 9 August 2010, this additional financial support was repaid in August 2010, and the new guarantee was cancelled at that time. VRL's earlier guarantee to Warner Bros and its US\$45 million loan provided to VREG in May 2009 both remain in place.

On 3 June 2010, VRL announced that, in keeping with the traditional four year rotation policy, Mr. Robert G. Kirby was appointed Chairman of VRL, and Mr. John R. Kirby was appointed to the position of Deputy Chairman.

On 15 June 2010, VRL announced that its wholly owned subsidiary, Roadshow Distributors Pty Ltd, had executed a new A\$125 million, 3 year debt facility, with a syndicate of Australian and International banks

On 9 August 2010, in addition to announcing the Transaction, as detailed above, VRL also announced that the additional financial support provided to VREG from May 2010 onwards had been repaid and the new guarantee had been cancelled.

For a copy of VRL's recent ASX announcements, go to www.villageroadshow.com.au

1.10 Further material developments and update on matters in progress

(a) Theme Parks

The VRL Group continues to seek to expand its water park business. VRL is seeking to develop a potential new water park in Australia to complement its Wet'n'Wild park on the Gold Coast. The development of this water park is not assured and is dependent upon a number of conditions,

including obtaining finance. Any such development will take several years before a water park is likely to be operational.

The VRL Group continues to explore international theme park opportunities in a number of countries.

(b) Film Production and Music

VREG is pursuing a number of strategic initiatives aimed at strengthening its balance sheet and thus augmenting its long term ability to continue to fund future films and music projects. One of these strategic initiatives involves the possibility of VREG being listed on an international stock exchange and raising additional equity. Alternative strategic initiatives include potential new partners, investors or financing. It is possible that if one of these strategic initiatives is completed, VRL may receive repayment of some or all of its May 2009 loan to VREG. It is also possible that VRL’s interest in VREG may become more liquid. There can be no assurance that any particular strategic initiative is able to be completed by VREG.

(c) Gold Class USA

Village Roadshow Attractions USA Inc (“VRA”), an indirect US subsidiary of VRL, has signed a memorandum of understanding in relation to VRL’s Gold Class USA operations which, if finalised, will result in VRA contributing funding to the existing business to assist that business meet its liabilities, and contributing approximately US\$8 million to a new entity which will be 30% owned by VRA, and which will acquire the restructured operations.

1.11 Share price information

(a) Ordinary shares

As at the date of this explanatory memorandum, VRL has 114,217,649 ordinary shares on issue.

Figure 1 sets out recent trading information for VRL ordinary shares.

Figure 1 Ordinary shares trading information

	\$
VWAP since 9 August 2010¹	2.30
Closing price on 6 August 2010²	2.12
30 day VWAP³	2.07
60 day VWAP³	2.02

Notes:

- 1 Represents the volume weighted average price from announcement of the Transaction until close of trading on 13 August 2010
- 2 Represents the trading day prior to the announcement of the Transaction
- 3 Represents the volume weighted average price prior to announcement of the Transaction

For the six months prior to the announcement of the Transaction, the average daily trading volume of VRL ordinary shares was 32,352, representing a turnover of approximately 0.03% of the VRL ordinary shares currently listed on ASX.

Figure 2 sets out the daily share volume traded and closing share price of VRL ordinary shares between 1 July 2008 and 13 August 2010.

Figure 2 VRL ordinary shares—share price and volume ¹



Source: IRESS

Note:

- 1 In November 2009, VRL completed an on-market buy-back of 12,690,800 ordinary shares at an average price of \$1.87 per share. As can be seen from the Figure 2, since the last on-market buy-back trading volumes of ordinary shares has been low

(b) Preference shares

As at the date of this explanatory memorandum, VRL has 52,235,451 preference shares on issue. The terms of issue of the preference shares are set out in VRL’s Articles of Association and the original prospectus for the issue of the preference shares.

Figure 3 sets out recent trading information for VRL preference shares prior to the announcement of the Transaction.

Figure 3 Preference shares trading information

	\$
VWAP since 9 August 2010¹	2.34
Closing price on 6 August 2010²	2.30
30 day VWAP³	2.20
60 day VWAP³	2.08

Notes:

- 1 Represents the volume weighted average price from announcement of the Transaction until close of trading on 13 August 2010
- 2 Represents the trading day prior to the announcement of the Transaction
- 3 Represents the volume weighted average price prior to announcement of the Transaction

For the six months prior to the announcement of the Transaction, the average daily trading volume of VRL preference shares was 24,655, representing a turnover of approximately 0.05% of the VRL preference shares currently listed on ASX.

Figure 4 sets out the daily share volume traded and closing share price of VRL preference shares between 1 July 2008 and 13 August 2010.

Figure 4 VRL preference shares—share price and volume ¹



Source: IRESS

Note:

¹ In November 2009, VRL completed an on-market buy-back of 45 million preference shares at an average price of \$1.81 per share. As can be seen from the Figure 4, since the last on-market buy-back trading volumes of preference shares has been low

(c) Relative share prices of preference shares and ordinary shares

For the five years prior to the announcement of the Transaction, the share price of preference shares has at different times been at a premium and discount to the ordinary share price and has traded at approximately an 8% discount, on average, to the share price of ordinary shares (based on the average of closing prices during that period).

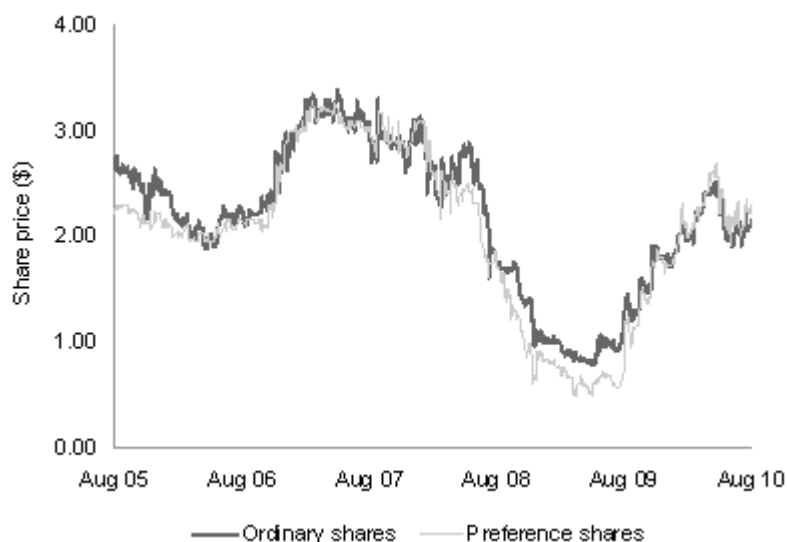
Likely factors that have contributed to the fluctuation in relative share prices of the preference shares and ordinary shares have been VRL shareholders' assessment of the relative attractiveness of the terms of the preference shares and ordinary shares (refer to section 2.3 for a comparison) having regard to the outlook for VRL and the economy in general, and stock market dynamics at the time. Over this period, the increasing illiquidity of each class of share has also likely been a contributing factor to the fluctuation.

More recently, the average price differential between the preference shares and ordinary shares has narrowed. In October 2009, the Directors of VRL announced (in an Explanatory Memorandum pertaining to an on-market buy-back) that they believed that if the preference shares were eliminated it would improve the efficiency of the company's capital structure. Since that date the preference shares have traded on average at a slight premium to the ordinary shares, potentially driven by the expectation that VRL may eliminate the preference shares as a separate class to ordinary shares by undertaking further buy-backs.

The ordinary shares and preference shares have been largely illiquid over the last twelve months with the only significant volume occurring during the on-market buy-back conducted by VRL in November 2009 which involved both ordinary shares and preference shares. During the on-market buy-back, the share price of preference shares traded at a 1% discount, on average, to the share price of ordinary shares (based on the average of closing prices during the period).

Figure 5 sets out the share price of preference shares relative to ordinary shares of VRL between 13 August 2005 and 13 August 2010.

Figure 5 VRL preference shares and VRL ordinary shares—share price



Source: IRESS

Since the announcement of the Transaction the share prices of the preference shares and the ordinary shares have been broadly in line with each other.

1.12 Dividends

Figure 6 sets out the dividends declared and paid for ordinary shares and preference shares from November 2005 onwards.

Figure 6 Dividends per share

	Ordinary shares		Preference shares	
	Amount	Franking	Amount	Franking
November 2009	6 cents	100%	9 cents	100%
June 2009	3.75 cents	100%	3.75 cents	100%
November 2008	9 cents	100%	12 cents	100%
March 2008	7.5 cents	100%	7.5 cents	100%
March 2008	10 cents	100%	10 cents	100%
November 2007	9 cents	100%	12 cents	100%
November 2006	34 cents	100%	37 cents	100%
November 2005	7.175 cents	100%	10.175 cents	100%

In accordance with the rights of preference shares, to the extent a dividend is declared on the ordinary shares, the holder of a preference share has the non-cumulative right to receive the higher of 10.175 cents or an amount 3.0 cents higher than that paid on an ordinary share in each financial year. In relation to the year ended 30 June 2010, no dividends were declared on the ordinary shares, and accordingly, no dividends were payable on the preference shares as their entitlement to dividends is non-cumulative.

The VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to,

precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full.

The Directors of VRL believe one of the benefits of the Transaction is a more flexible dividend policy in the future which will be to the benefit of both existing preference and ordinary shareholders in maximising value for all shareholders by facilitating a more consistent and reliable dividend flow to shareholders.

However, the Directors of VRL can give no assurance as to future dividend policy, the extent of future dividends, nor the franking status as these will depend on the actual levels of profitability, capital requirements and taxation position of VRL at the relevant time.

1.13 Top 15 shareholders and Directors' interests

As at 2 August 2010 the 15 largest ordinary shareholders in VRL were as follows:

Ordinary shares

Name of holder	Shares	%	Rank
Village Roadshow Corporation Pty Limited	74,517,432	65.24%	1
JP Morgan Nominees Australia Limited	4,338,223	3.80%	2
PAN Australia Nominees Pty Limited	4,173,114	3.65%	3
Citicorp Nominees Pty Limited	4,057,964	3.55%	4
National Nominees Limited	3,805,174	3.33%	5
Brispot Nominees Pty Limited <House Head Nominee No 1 A/C>	2,562,646	2.24%	6
Feta Nominees Pty Limited	1,816,600	1.59%	7
Mr Graham William Burke	1,341,920	1.17%	8
Mr Peter Edwin Foo	1,000,000	0.88%	9
Mr John Kirby	1,000,000	0.88%	10
Mr Robert George Kirby	1,000,000	0.88%	11
CS Fourth Nominees Pty Ltd <Unpaid A/C>	947,629	0.83%	12
UBS Nominees Pty Ltd	509,568	0.45%	13
HSBC Custody Nominees (Australia) Limited	308,466	0.27%	14
Braidswood Pty Ltd	257,400	0.23%	15

As at 2 August 2010 the 15 largest preference shareholders in VRL were as follows:

Preference shares

Name of holder	Shares	%	Rank
Citicorp Nominees Pty Limited	16,955,188	32.20%	1
National Nominees Limited	5,881,935	11.17%	2
Ravenscourt Pty Ltd	2,825,502	5.37%	3
UBS Nominees Pty Ltd	1,761,445	3.35%	4
ANZ Nominees Limited	1,393,137	2.65%	5
ANZ Nominees Limited <Cash Income A/C>	1,048,898	1.99%	6
JP Morgan Nominees Australia Limited	813,024	1.54%	7
Mr Anthony Huntley	800,000	1.52%	8
Mr Peter Edwin Foo	706,672	1.34%	9
HSBC Custody Nominees (Australia) Limited	667,000	1.27%	10
Mr Andrew Walsh	650,000	1.23%	11
Mr Philip S Leggo and Ms Elizabeth Leggo	550,000	1.04%	12
Mr Gregory Bassier and Onbass Pty Ltd	533,333	1.01%	13
Mr Laurence Zalokar <L Zalokar Super Fund A/C>	504,006	0.96%	14
Mr Christopher B Chard	500,000	0.95%	15

As at 2 August 2010 the substantial shareholders in VRL were as follows:

Ordinary shares

Name of holder	Shares	%	Rank
Village Roadshow Corporation Pty Limited	77,859,352	68.17%	1

As at 2 August 2010 the relevant interests of the Directors of VRL in the shares, options and 'in substance options' of VRL and related bodies corporate were as follows:

Name of Director	VRL			Austereo
	Ordinary shares	Preference shares	Ordinary options	Ordinary shares
Robert G. Kirby	77,859,352	–	–	181,093,856
John R. Kirby	77,859,352	–	–	181,093,856
Graham W. Burke	77,859,352	–	6,000,000	181,093,856
Peter M. Harvie	257,400	242,900	–	1,030,001
Peter D. Jonson	20,000	37,000	–	–
D. Barry Reardon	10,000	8,552	–	–
David J. Evans	80,000	–	–	–
Robert Le Tet	–	–	–	–

1.14 VRL's capital management objective

VRL's capital management objective is to create a more effective capital structure and to maximise value for all VRL shareholders. The Directors believe that the current capital structure contributes to VRL's underlying value not being fully reflected in the market prices for preference shares and ordinary shares. The Directors also believe that the current capital structure inhibits

the adoption of a more flexible dividend policy in the future. The Transaction is consistent with VRL's capital management objective of creating a more efficient capital structure and maximising value for all VRL shareholders.

The Directors believe that if all of the preference shares on issue were eliminated as a separate class to ordinary shares it would improve the efficiency of VRL's capital structure and enhance the investment appeal of shares in VRL given it would:

- remove an outdated class of shares that has low liquidity and a class of share capital that cannot be expanded;
- result in a capital structure that can facilitate a more flexible dividend policy in the future;
- address concerns previously expressed by shareholders in relation to VRL's dual share class structure;
- increase the number of VRL ordinary shares on issue which may increase the liquidity of VRL ordinary shares; and
- improve VRL's representation in the All Ordinaries index, which may result in higher liquidity.

The Directors of VRL believe that the Buy-Back is consistent with seeking to achieve this objective.

2. The Transaction

The Transaction involves two components:

- the variation of rights attaching to VRL's preference shares so that each preference share will have the same rights as, and otherwise be indistinguishable from, one VRL ordinary share; and
- an on-market buy-back of some of VRL's preference shares and ordinary shares.

2.1 About the Variation

VRL proposes to vary the rights of VRL's preference shares so that each preference shares will have the same rights as, and otherwise be indistinguishable from, one VRL ordinary share.

The Variation is conditional on the Buy-Back Resolution being approved by shareholders and VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue).

To implement the Variation, VRL proposes two shareholder resolutions:

- an Amendment Resolution to be proposed at the General Meeting to modify VRL's Articles of Association to provide VRL with a mechanism whereby it may vary the rights attached to the preference shares so that those rights are the same as the rights attached to, and the preference shares effectively convert into, ordinary shares; and
- subject to the approval of the Amendment Resolution, a Variation Resolution to be proposed at the Preference Shareholder Meeting to vary the rights of VRL's preference shares.

(a) About the Amendment Resolution

VRL proposes to modify its Articles of Association to provide VRL with a mechanism to vary the rights attached to preference shares so that those rights are the same as the rights attached to, and the preference shares effectively convert into, ordinary shares as follows:

- (i) VRL must, on or before 30 days after the proposed amendments to the Articles of Association takes effect, give to ASX an irrevocable notice in respect of all (and not some) of its A Class preference shares ("Variation Notice"); and
- (ii) at 7.00pm (Melbourne time) on the date specified in the Variation Notice is given to ASX, each A Class preference share confers all of the rights attaching to one fully paid ordinary share, each A Class preference share will rank equally with all fully paid ordinary shares and all other rights or restrictions conferred on the A Class preference share, in the Articles of Association or under the terms of issue, will no longer have effect.

The proposed modification to VRL's Articles of Association is subject to the sanction of a special resolution passed at a meeting of preference shareholders (which is to be satisfied with the Variation Resolution to be proposed at the Preference Shareholder Meeting) and VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue) under the Buy-Back. Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

Therefore, if:

- (i) shareholders pass the special resolution to modify VRL's Articles of Association;
- (ii) preference shareholders pass the special resolution to approve the variation of the rights attaching to A Class preference shares; and
- (iii) VRL buys back preference shares and ordinary shares totalling at least 11 million shares in VRL under the Buy-Back,

the modification to the VRL's Articles of Association should take effect 1 month after the buy-back of the required minimum numbers of shares has taken place, provided that no application is made to the Court by preference shareholders in accordance with section 246D of the Corporations Act to have the variation to the A Class preference share rights set aside. If such an application is made, the Variation will not take effect until the application is withdrawn or finally determined.

Under this Variation mechanism, each preference share is effectively converted into an ordinary share and no preference shares are cancelled, redeemed or terminated and no new shares are issued, allotted or created.

If the Variation takes effect, the capital structure of VRL will be reorganised so that the preference shares and ordinary shares are combined into a single class of ASX quoted securities, namely fully paid ordinary shares.

(b) About the Variation Resolution

Subject to the passing of the Amendment Resolution, VRL proposes to vary the rights of preference shareholders in accordance with the modification to VRL's Articles of Association implemented under the Amendment Resolution and approved under the Amendment Resolution.

This Variation Resolution involves a variation of the rights of the preference shares so that they are effectively converted into ordinary shares.

Article 10(a) of VRL's Articles of Association provides that the rights attaching to a class of shares may be varied with:

- (i) the consent in writing of the holders of three-fourths of the issued shares included in that class; or

- (ii) the sanction of a special resolution passed at a meeting of the holders of those shares.

Accordingly, VRL is seeking approval from preference shareholders for the variation of the rights attached to the issued preference shares so that each preference share will have the same rights as, and be effectively converted into, one VRL ordinary share.

The implementation of the Variation is conditional on:

- (i) VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL under the Buy-Back; and
- (ii) the Amendment Resolution being passed by shareholders.

If one or more of the above conditions are not met, the Variation will not proceed.

2.2 Rationale for the Variation

VRL proposes the Variation because it believes:

- (a) it will simplify VRL's capital structure;
- (b) it will facilitate a more flexible dividend policy for VRL in the future;
- (c) there has been limited trading in preference shares, as set out in Section 1.11;
- (d) it may provide additional liquidity for shareholders where there is one class of ordinary shares; and
- (e) it would reduce the administrative costs associated with having an additional class of shares.

2.3 Comparison of the rights and terms of preference shares and ordinary shares

(a) Preference share terms

The principal rights attached to the preference shares in VRL are summarised below. This summary is not intended to be exhaustive.

(General Meetings) The preference shares confer on the holder the right to receive notices of general meeting of VRL and reports and accounts of VRL. Holders have the right to attend general meetings of VRL.

(Voting Rights) The preference shares confer no right on the holder to vote on any resolutions proposed at a general meeting of VRL other than:

- (i) on a proposal that affects rights attaching to preference shares;
- (ii) during a period during which any dividend (or part of any dividend) payable on the preference share is more than six months in arrears;
- (iii) on a proposal to reduce VRL's share capital;
- (iv) on a proposal to wind up VRL; and
- (v) on a proposal for the sale of VRL's undertaking.

(Rights on Winding Up) The preference shares confer the right on the holder on a winding up of VRL:

- (i) to a return of the capital paid up on the preference shares (ie. \$0.50 per preference share), in priority to all other classes of shares on issue; and

(ii) to participate in the distribution of any surplus assets of VRL equally with each fully paid ordinary share of VRL.

(Dividend Rights) The preference shares confer the right on the holder to receive in priority to all other classes of shares a non-cumulative dividend payable annually in respect of each financial year. To the extent a dividend for the ordinary shares is declared, the dividend for the preference shares will be the higher of:

- (i) 10.175 cents per preference share; and
- (ii) the amount of all dividends payable in respect of that financial year on each ordinary share plus three cents per preference share.

(Right to Priority) The preference shares confer on the holder the right to rank in priority to any shares that are created or issued by VRL as to dividends and, return of capital up to \$0.50 per share on a winding up.

(Conversion to ordinary shares) In the event of an unconditional takeover for VRL, if the Directors of VRL issue a statement which recommends acceptance and/or advises that VRC intends to accept the offer, the preference shares convert to ordinary shares at a ratio of one for one.

(b) Ordinary share terms

The rights attached to ordinary shares in VRL are:

- (i) set out in VRL's Articles of Association; and
- (ii) in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, ASTC Settlement Rules and the general law.

The principal rights attached to the ordinary shares in VRL are summarised below. This summary is not intended to be exhaustive.

(General Meetings) Ordinary shareholders are entitled to receive notices of general meeting and reports and accounts of VRL. Ordinary shareholders have the right to attend general meetings of VRL.

(Voting Rights) At a general meeting, every ordinary shareholder present in person or by attorney, proxy or representative has one vote on a show of hands and one vote on a poll for each fully paid share held (with adjusted voting rights for partly paid shares). If more than one joint holder of a share is present at a general meeting, only the vote of the joint holder named first in the register of shareholders counts. A poll may be demanded by at least 5 shareholders entitled to vote on the resolution, shareholders with at least 5% of the votes that may be cast on the resolution on the poll or the Chairman. If votes are equal on a proposed resolution, the Chairman has a casting vote on a show of hands or on a poll.

(Dividend Rights) VRL may from time to time pay dividends to ordinary shareholders out of the profits of VRL (which continues to apply despite the new surplus assets test for payment of dividends effective in the Corporations Act from 28 June 2010). The Directors may fix the amount and method of payment of the dividends. Subject to any special rights or restrictions attaching to shares, dividends are to be paid to ordinary shareholders in proportion to the amounts paid on the shares.

(Rights on Winding Up) Subject to the Articles of Association and any special resolution or preferential rights attaching to any class or classes of shares, holders will be entitled on a winding up of VRL to participate in any surplus assets of VRL in proportion to the number of, and amounts paid on, shares held by them.

2.4 About the Buy-Back

VRL proposes an on-market buy-back of some of VRL's preference shares and ordinary shares.

Under the Buy-Back Resolution, VRL is seeking shareholder approval to buy back up to 35 million shares (representing 21.0% of the total number of preference shares and ordinary shares on issue).

However, the Variation is conditional on VRL buying back preference shares and ordinary shares totalling at least 11 million shares in VRL (representing 6.6% of the total number of preference shares and ordinary shares on issue). Of the first 11 million shares to be bought back, the total number of ordinary shares to be bought back will be 4.5 million or less (representing up to 3.9% of the total number of ordinary shares on issue).

The maximum number of ordinary shares that may be bought back is 11.4 million representing 10.0% of issued ordinary shares.

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 27 September 2010 and conclude on 18 October 2010. VRL reserves the right to amend this timetable at any time and for any reason.

Subject to the ASX Listing Rules, shares will be bought back at prices, volumes and times determined by VRL to be appropriate from time to time having regard to:

- market conditions;
- the prevailing share price of VRL's preference shares and ordinary shares;
- liquidity of VRL's preference shares and ordinary shares (ie. volumes traded on ASX);
- alternative uses of funds, such as acquisition opportunities, that may arise during the Buy-Back period; and
- any other matter considered relevant by VRL at the time, including outcomes of the resolutions to be concluded at the shareholder meetings to approve the Transaction.

Trading in preference shares will continue on ASX before and during the Buy-Back period and will continue to trade on ASX after the Buy-Back period until a Variation notice is issued by VRL to preference shareholders. Trading in ordinary shares will continue on ASX before, during and after the Buy-Back period. Any shares acquired by VRL will be immediately cancelled.

VRL reserves the right not to buy back more than the threshold amount of 11 million shares in VRL or not to buy back any shares at all for any reason.

The Buy-Back is conditional upon shareholder approval of the Buy-Back Resolution, the Amendment Resolution and the Variation Resolution. If any of these conditions are not satisfied, the Buy-Back will not proceed.

VRL has the flexibility to determine the proportion of preference shares and ordinary shares which are bought back, subject to 11.4 million being the overall maximum number of ordinary shares that may be bought back .

(a) How the Buy-Back will be conducted

The Buy-Back of shares by VRL will be conducted:

- on ASX; and
- in the ordinary course of trading.

Under the Buy-Back:

- there cannot be any pre-arrangements between VRL and any shareholder;

- VRL must show complete indifference between sellers of shares; and
- no special crossings between VRL and any shareholders are permitted.

Under Listing Rule 7.33 VRL may only buy back shares under the Buy-Back at a price which is not more than 5% above the average of the '*market price*' for each of the preference shares and ordinary shares calculated over the last 5 days in which sales of these shares were recorded before the day on which the purchase under the Buy-Back is made. The '*market price*' is the closing price on ASX's Trading Platform excluding special crossings, overnight sales and exchange traded option exercises.

Shareholders who wish to participate in the Buy-Back will not know whether they are selling their shares to VRL under the Buy-Back or to any other buyer on ASX.

(b) How to participate

Shareholders may participate in the Buy-Back by selling their ordinary shares or preference shares on ASX during the Buy-Back period. The price received for any sale will be the prevailing market price at the time of sale.

Shareholders should contact their broker for details of how to participate.

2.5 Rationale for the Buy-Back

(a) Directors' consideration of capital management objectives

The Directors believe that the Transaction is consistent with VRL's capital management objective of creating a more effective capital structure and maximising value for all VRL shareholders (as discussed in section 1.14).

(b) Directors' consideration of using capital for other purposes

The Directors considered a range of alternative uses of VRL's capital, including:

- further acquisitions or investments; and
- utilisation of debt facilities.

Further acquisitions or investments

Given:

- the prices at which preference shares and ordinary shares have recently traded; and
- the Directors' knowledge and understanding of the VRL Group's operations relative to potential acquisition or investment opportunities,

and having considered the relative risks and rewards weighed against the objective of creating a more efficient and effective capital structure and maximising value for all VRL shareholders, the Directors do not consider that further acquisitions or investments would be a better use of capital than implementing the Buy-Back at this time. However, VRL will continue to assess acquisition opportunities as they arise and alternative uses of capital, including during the Buy-Back period. This assessment will have regard to the level of shares bought back at that time, particularly once the threshold amount of 11 million shares have been bought back. The Directors consider that the Buy-Back should provide attractive returns to VRL and enhance earnings per share (refer to section 6.3).

Utilisation of debt facilities

The Directors believe that utilising VRL's debt facilities in implementing the Buy-Back can provide greater benefits for shareholders as the objective of creating a more efficient and effective capital structure is considered to be an appropriate use of funds.

Section 6.4 illustrates that the indicative impact of the Buy-Back on VRL's credit ratios as at 30 June 2010 is not significant.

(c) Directors' consideration of other capital management initiatives

The Directors considered a number of other capital management initiatives and concluded that the Transaction (including the Buy-Back) is the most effective and efficient way to deliver benefits to all shareholders.

The Buy-Back gives shareholders a choice to either participate in a return of capital or to retain their interest in VRL and continue to be subject to the benefits and investment risks associated with share ownership.

The Directors concluded that the Buy-Back offers both participating and non-participating shareholders advantages which are not available from other methods of returning capital at this time, including:

- the flexibility available to each shareholder to sell some or all of their shares to suit each of their own circumstances;
- a mechanism under which shareholders may be able to sell VRL shares without negatively impacting the market price of shares in VRL;
- the potential to benefit through improved total earnings per share for remaining VRL shareholders; and
- moving towards a more efficient and effective capital structure.

Shareholders who wish to sell their shares on-market should note that there is no assurance as to the price, volume or timing of sales as these factors depend on market dynamics which are not within the control or influence of VRL.

2.6 Independent expert's report

VRL has not commissioned an independent expert's report on the Transaction.

In October 2009, the Directors of VRL engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare a report containing an independent valuation of VRL's preference shares and ordinary shares at the time and provide an independent analysis of the issues that shareholders should have considered at the time when deciding whether to participate in the buy-back completed by VRL in November 2009. For a copy of the Grant Samuel report, go to www.villageroadshow.com.au or www.asx.com.au.

You should note that, as stated in the explanatory memorandum released by VRL in October 2009, the VRL Board did not endorse the valuation set out in the Grant Samuel report. Grant Samuel stated that its valuation was appropriate purely in the context of a change of control transaction. No such transaction is currently proposed for VRL. Grant Samuel noted that its valuation did not represent an estimate of the possible future trading price of VRL's ordinary shares or preference shares. In addition, Grant Samuel noted that estimates of VRL's underlying value have little bearing on shareholders' evaluation of the buy-back in October 2009.

The Directors of VRL consider this explanatory memorandum provides detailed information as to the merits of the Transaction and you should read the explanatory memorandum carefully and seek professional advice in deciding whether to participate in the Buy-Back.

2.7 Timetable

The indicative timetable for the Buy-Back is as follows:

9 August 2010	Transaction announced
24 August 2010	Explanatory memorandum despatched
24 September 2010	Shareholder meetings
27 September 2010	Buy-Back period commences
18 October 2010	Buy-Back period concludes
25 October 2010	Despatch notice of AGM and proxy forms
19 November 2010	Variation Notice issued to ASX*
23 November 2010	Entitlement date for AGM voting
25 November 2010	VRL 2010 AGM
29 November 2010	Preference shares cease to be quoted on ASX at close of trading
30 November 2010	Commencement of deferred settlement in post-variation ordinary shares
6 December 2010	Record date – last day for VRL to register transfers of preference shares on a pre-reorganisation basis
13 December 2010	Despatch of holding statements for post-Variation ordinary shares
14 December 2010	Commencement of normal trading in post-Variation ordinary shares
20 December 2010	Settlement of all trades conducted on a deferred settlement basis

* This is the earliest date that VRL can give ASX a Variation Notice assuming the Buy-Back Condition (as defined in the Amendment Resolution) is satisfied on 18 October 2010, provided that preference shareholders who hold at least 10% of preference shares do not apply to the Court to have the Variation set aside. If such an application were made, this date and the dates following this date will vary accordingly

VRL reserves the right to amend this timetable at any time and for any reason. Any amendments will be notified to shareholders via an announcement to ASX.

VRL may buy back shares at prices, volumes and times determined by VRL.

2.8 Directors' recommendation

(a) Directors' recommendation relating to the Variation

The Directors recommend that shareholders vote in favour of the Amendment Resolution and the Variation Resolution. The Chairman intends to vote undirected proxies in favour of the Amendment Resolution and the Variation Resolution.

(b) Directors' recommendation relating to the Buy-Back

The Directors recommend that shareholders vote in favour of the Buy-Back Resolution. The Chairman intends to vote undirected proxies in favour of the Buy-Back Resolution.

The Directors make no recommendation as to whether you should sell your shares or retain them.

3. Advantages and disadvantages of the Transaction

Set out below are some of the potential advantages and disadvantages of the Transaction identified by VRL. These include potential advantages and disadvantages of the Variation, potential advantages and disadvantages of participating in the Buy-Back and potential advantages and disadvantages of not participating in the Buy-Back.

In addition to the potential advantages and disadvantages of the Variation and the Buy-Back, the Transaction gives preference shareholders flexibility to sell some or all of their shares or to have the rights attaching to their preference shares varied so that they will have the same rights as ordinary shares.

3.1 Advantages and disadvantages of the Variation

(a) Advantages of the Variation

VRL believes that the potential advantages of the Variation include those set out below. Potential advantages of the Buy-Back for participating and non-participating shareholders are set out in sections 3.2(a) and 3.3(a) respectively.

(i) More efficient capital structure

(affects current holders of both preference shares and ordinary shares)

The Variation is consistent with VRL's capital management objective of creating a more efficient capital structure to maximise value for all VRL shareholders. The Directors believe that the current capital structure contributes to VRL's underlying value not being fully reflected in the market prices for preference shares and ordinary shares. The Directors believe that if all of the preference shares on issue were eliminated as a separate class of shares it would improve the efficiency of the company's capital structure and enhance the investment appeal of shares in VRL. The proposal to simplify VRL's capital structure reflects feedback from VRL shareholders.

(ii) Increased liquidity

(affects current holders of both preference shares and ordinary shares)

If implemented, the Variation will increase the total number of ordinary shares on issue and may therefore increase liquidity on ASX. Both ordinary shareholders and preference shareholders (as holders of post-Variation ordinary shares) should benefit if liquidity of VRL shares increased.

- (iii) Increased representation in the All Ordinaries index
(affects current holders of both preference shares and ordinary shares)

If VRL's market capitalisation increases as a result of the Variation, this may cause an improvement in VRL's representation in the All Ordinaries index, which may result in higher liquidity.

- (iv) Facilitates a more flexible dividend policy
(affects current holders of both preference shares and ordinary shares)

As set out in section 2.3, currently under VRL's Articles of Association, if an ordinary dividend is recommended by Directors and declared, the dividend on preference shares will be the higher of 10.175 cents per share and the amount of all dividends payable in respect of that financial year on each ordinary share plus three cents per share.

VRL believes that if all of the preference shares are eliminated as a separate class of securities it would result in a capital structure that can enable a more flexible dividend policy to the benefit of all shareholders in the future by facilitating a more consistent and reliable dividend flow to shareholders. For further information on dividends, refer to sections 1.12 and 6.8.

- (v) Preference shareholders' voting power in VRL will increase
(affects current holders of preference shares only)

Currently, preference shareholders can only attend and participate in shareholder meetings subject to limited voting rights. If the Variation is implemented, each post-Variation ordinary share will have the same rights as one ordinary share, including one vote in shareholder meetings for every share held.

For example, if VRL buys back 4.5 million ordinary shares and 6.5 million preference shares under the Buy-Back and the Variation is implemented, the combined voting power of existing preference shareholders will increase (due to their holding of post-Variation ordinary shares) from 0.0% to approximately 29.4%.

Existing substantial holders (including VRC and the Executive Directors) may be required to file details of a change in their substantial holding if there is a 1% (or greater) movement in their substantial holding as a result of the Variation.

- (vi) Trading price
(affects current holders of both preference shares and ordinary shares)

In addition to the advantages noted, over the last five years the relative share prices of the preference shares and ordinary shares have fluctuated. However, the prices at which preference shares have usually traded have generally been below the traded prices of ordinary shares; on average, approximately 8% below over the five year period (based on the average of closing prices during that period).

Since the announcement of the Transaction the share prices of the preference shares and the ordinary shares have been broadly in line with each other.

For further information on historical trading prices of the preference shares and ordinary shares, refer to section 1.11.

- (vii) Improved protection for ordinary shareholders in the event that VRL is wound up
(affects current holders of ordinary shares only)

If VRL is wound up, the VRL constitution has the effect that preference shareholders are entitled to be paid \$0.50 per share in priority to ordinary shareholders, who are then paid

\$0.50 per share, with any surplus shared pro-rata between the two classes of shareholders.

If implemented, the Variation would eliminate all of the preference shares on issue as a separate class of shares and therefore, in the event VRL is wound up, any amount available to shareholders would be shared between all VRL shareholders in proportion to their respective shareholdings.

(viii) Reduced administrative costs

(affects current holders of both preference shares and ordinary shares)

The Variation is expected to reduce the administrative costs associated with having a dual share class structure. Having only one class of shares will reduce the costs associated with having separate proxy forms, voting at shareholder meetings and general administration. This cost saving is expected to be minor.

(b) Disadvantages of the Variation

VRL believes that the potential disadvantages of the Variation include those set out below. Potential disadvantages of the Buy-Back for participating and non-participating shareholders are set out in sections 3.2(b) and 3.3(b) respectively.

(i) Ordinary shareholders' voting power in VRL will be diluted

(affects current holders of ordinary shares only)

As set out in section 2.1, if the Variation is implemented each preference share will have the same rights as one ordinary share, including one vote in shareholder meetings for every share held.

For example, if VRL buys back 4.5 million ordinary shares and 6.5 million preference shares under the Buy-Back and the Variation is implemented, the voting power of existing ordinary shareholders will decrease from 100% to approximately 70.6%.

(ii) Preference shareholders will no longer have a right to higher dividends

(affects current holders of preference shares only)

As set out in section 2.3, under the VRL Articles of Association, if an ordinary dividend is recommended by Directors and declared, the dividend on preference shares will be the higher of 10.175 cents per share and the amount of all dividends payable in respect of that financial year on each ordinary share plus three cents per share. If implemented, the Variation would eliminate all of the preference shares on issue and would therefore eliminate preference shareholders' priority to higher dividends if an ordinary dividend is declared.

In addition, there are restrictions on future dividends paid by VRL under the conditions of the VRL Facility. As set out in section 1.8, no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full.

However, as set out in section 2, VRL believes that if all of the preference shares are eliminated it would result in a capital structure that can enable a more flexible dividend policy in the future to the benefit of all shareholders by facilitating a more consistent and reliable dividend flow to shareholders.

- (iii) Preference shareholders will no longer have priority in the event that VRL is wound up
(affects current holders of preference shares only)

As set out in section 2.3, in the event that VRL is wound up, the VRL constitution has the effect that preference shareholders are entitled to be paid \$0.50 per share in priority to ordinary shareholders, who are then paid \$0.50 per share, with any surplus shared pro-rata between the two classes of shareholders.

If implemented, the Variation would eliminate all of the preference shares as a separate class of shares and therefore, in the event that VRL is wound up, any amount available to shareholders would be shared pro-rata between all VRL shareholders.

- (iv) Preference shareholders will no longer be exempt from substantial holding disclosure
(affects current holders of preference shares only)

Post-Variation ordinary shares will be shares ranking equally with existing ordinary shares and any person who, together with their associates, has a relevant interest amounting to 5% or more of all ordinary shares will be required to complete and file with VRL and with ASX a notice of substantial holding.

3.2 Advantages and disadvantages of the Buy-Back for participating shareholders

Selling shares during the Buy-Back period is completely your decision. If you are unsure as to what to do, you should read this explanatory memorandum and seek professional advice.

This explanatory memorandum has been prepared without taking into account your particular objectives, financial situation or needs. VRL and the Directors make no recommendation as to whether you should sell or not. VRL is not licensed to provide financial product advice.

(a) Advantages

VRL believes that the potential advantages for shareholders that participate in the Buy-Back (ie. shareholders that sell their ordinary shares or preference shares during the Buy-Back period) include those set out below.

- (i) Sale price received may be higher than the value shareholders attribute

The Buy-Back may provide shareholders with an opportunity to sell their VRL shares for a price which is greater than or equal to their assessment of the value of a VRL share.

- (ii) Potential liquidity event

Both the preference shares and ordinary shares have had a low volume of shares traded in recent years, excluding the previous on-market buy-back in November 2009 (refer to section 1.11). The Buy-Back has the potential to provide a mechanism for shareholders to sell a large volume of VRL shares without negatively impacting the market price of VRL shares.

- (iii) No exposure to the ongoing risks associated with remaining a VRL shareholder

Shareholders who sell their shares during the Buy-Back period will no longer continue to be subject to the risks associated with owning VRL's ordinary shares or preference shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years and remaining shareholders will be exposed to any future decline in the market price of VRL shares or reduction in future dividends. For further information on dividends, refer to sections 1.12 and 6.8.

(iv) Cash proceeds and simple process

The Buy-Back is a simple process and provides VRL shareholders with the opportunity to receive cash proceeds for their ordinary shares or preference shares.

(v) Shareholders can tailor their sale of shares

The Buy-Back provides shareholders with an opportunity to sell some or all of their shares to suit their own circumstances. Shareholders can choose whether to sell their shares and how many of their VRL shares to sell.

(vi) Sale price received may be higher than historical trading share prices

The price at which shares are bought back may exceed the prices at which VRL's preference shares and ordinary shares have traded historically (refer to section 1.11). The share prices of preference shares and ordinary shares since the announcement of the Transaction on 9 August 2010 have traded broadly in line with each other.

To the extent that VRL shareholders sell their shares during the Buy-Back period, they may receive greater value than if they were to sell on-market in the absence of the Buy-Back.

Shareholders who wish to sell their shares on-market should note that there is no assurance as to the price, volume or timing of sales as these factors depend on market dynamics which are not within the control or influence of VRL.

(b) Disadvantages

VRL believes that the potential disadvantages for shareholders that participate in the Buy-Back (ie. shareholders that sell their preference shares or ordinary shares during the Buy-Back period) include those set out below.

(i) Sale price received may be lower than the value shareholders attribute

VRL shareholders may consider their shares to be worth more than the price that may be realised from selling on-market during the Buy-Back period.

(ii) Sale price received may be lower than historical trading share prices

The price at which shares are bought back may be lower than the prices at which VRL's preference shares and ordinary shares have traded historically (refer to section 1.11). The share prices of preference shares and ordinary shares since the announcement of the Transaction on 9 August 2010 have traded broadly in line with each other.

(iii) Potential transfer of value to continuing shareholders

To the extent that shares are acquired by VRL at a discount to their underlying value there may be a transfer of value to the continuing shareholders.

(iv) No exposure to the potential benefits of remaining a VRL shareholder

Shareholders who sell their VRL shares during the Buy-Back period will not benefit from:

- any future increase (if any) in the market price of VRL shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years;
- any future dividends paid by VRL. As set out in section 1.8, no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full. However, if the preference shares are eliminated as a

separate class to ordinary shares, the Directors of VRL believe this will facilitate a more flexible dividend policy in the future; and

- any offer which may be made for VRL shares in the future.

(v) Brokerage costs

Shareholders who sell on-market will incur brokerage costs.

3.3 Advantages and disadvantages of the Buy-Back for continuing shareholders

(a) Advantages

VRL believes that the potential advantages for shareholders that do not participate in the Buy-Back (ie. shareholders that do not sell their shares during the Buy-Back period) include those set out below.

(i) Potential improvement in total earnings per share

The Buy-Back has the potential to improve total earnings per share. This may lead to an increase in the value of VRL shares.

For further information on the indicative impact of the Buy-Back on earnings per share, refer to section 6.3.

(ii) Potential transfer of value to continuing shareholders

To the extent that shares are acquired by VRL at a discount to their underlying value there may be a transfer of value to the continuing shareholders.

(iii) Increased proportional shareholding (and voting power for ordinary shareholders) in VRL

To the extent a shareholder chooses not to sell, their number of VRL shares held will not change as a result of the Buy-Back, but, if VRL buys back shares, the shareholder's proportional holding in VRL will increase. If VRL buys back ordinary shares, non-participating shareholders' voting power will increase.

(iv) Maintain an exposure to the potential benefits of remaining a VRL shareholder

Shareholders who do not sell their VRL shares during the Buy-Back period will benefit from:

- any future increase (if any) in the market price of VRL shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years;
- any future dividends paid by VRL. As set out in section 1.8, no final dividend is payable for the year ended 30 June 2010 and, as set out in section 1.12, the VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full. However, if the preference shares are eliminated as a separate class to ordinary shares, the Directors of VRL believe this will facilitate a more flexible dividend policy in the future; and
- any offer which may be made for VRL shares in the future.

(b) Disadvantages

VRL believes that the potential disadvantages for shareholders that do not participate in the Buy-Back (ie. shareholders that do not sell their shares during the Buy-Back period) include those set out below.

(i) Increase in VRL's net debt, gearing and interest expense

To the extent that preference shares and ordinary shares are acquired under the Buy-Back, this will result in an increase in VRL's net debt and gearing and a reduction in equity. Consequently, shareholders who do not participate in the Buy-Back and retain their VRL shares will own shares in a company which has higher gearing than prior to the Buy-Back being implemented.

Both the terms of the additional debt and the effect of higher gearing on VRL's operations will reduce VRL's financial flexibility. If VRL wants to increase its financial flexibility in the future it may need to reduce its net debt, which could be achieved by divesting certain assets.

The Directors believe that undertaking the Buy-Back, while increasing VRL's net debt levels, is in the best interests of shareholders.

For further information on the indicative impact of the Buy-Back on the VRL Group's financial position, net debt, gearing and credit ratios, refer to section 6.4.

(ii) Reduced liquidity

Those VRL shares bought back will be subsequently cancelled. This will reduce the total number of VRL shares on issue and may further decrease liquidity on ASX. As set out in section 3.1(b), if the Variation is implemented, the liquidity of VRL shares on ASX is expected to increase as a result of the Variation and the Transaction. For further information on the volume of preference shares and ordinary shares historically traded, refer to section 1.11.

(iii) Increase in VRC's voting power

VRC and the Executive Directors control approximately 68.2% of VRL's ordinary shares on issue and no preference shares. VRC and the Executive Directors have confirmed to VRL that they do not intend to sell any VRL ordinary shares during the Buy-Back period. If VRL buys back ordinary shares and the Variation is not implemented, the voting power of VRC and the Executive Directors will increase to a maximum of 71.0% (assuming that VRL buys back 4.5 million ordinary shares). As set out in section 3.1(b), if the Variation is implemented, existing ordinary shareholders' voting power (including VRC) will decrease as a result of the Variation and the Transaction.

For further information on the participation of VRC and the impact of the Buy-Back on VRC's voting power in VRL, refer to section 5.

(iv) Reduced representation in the All Ordinaries index

If VRL's market capitalisation falls as a result of the Buy-Back, this may cause a reduction in VRL's representation in the All Ordinaries index. VRL's ordinary shares currently represent approximately 0.02% of the All Ordinaries index. Given the very small proportion of this index that VRL represents, any decrease in VRL's representation in the All Ordinaries index is also expected to be proportionately small. Regardless, this may result in lower liquidity. As set out in section 3.1(b), if the Variation is implemented, VRL's representation in the All Ordinaries is expected to increase as a result of the Variation and the Transaction;

- (v) Remain exposed to the risks associated with being a VRL shareholder

Shareholders who do not sell their shares during the Buy-Back period will continue to be subject to the risks associated with owning VRL's ordinary shares or preference shares. As set out in section 1.11, the market price of VRL's shares has fluctuated significantly in recent years and remaining shareholders are exposed to any future decline in the market price of VRL shares or reduction in future dividends. For further information on dividends, refer to sections 1.12 and 6.8.

4. Funding for the Buy-Back

VRL intends to fund the Buy-Back by increasing its borrowings.

VRL has received a credit approved term sheet ("VRL Term Sheet") from Australia and New Zealand Banking Group Limited ("ANZ") in relation to a modification of VRL's existing corporate debt facility with ANZ ("the VRL Facility") for the purpose of funding the Buy-Back. The VRL Term Sheet is subject to due diligence and satisfactory documentation.

The VRL Term Sheet includes a number of conditions precedent which must be satisfied or waived before the facility can be drawn down for the Buy-Back. The VRL Term Sheet contemplates additional finance that can only be used in relation to the Buy-Back. VRL expects that the relevant documentation will be finalised prior to the General Meeting and Preference Shareholder Meeting on 24 September 2010 and expects that the relevant conditions precedent will be satisfied or waived prior to the start of the Buy-Back period.

The VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full (assuming that the threshold amount of 11 million shares in VRL are bought back). VRL has undertaken that, if required, it will sell assets to ensure that it meets its repayment obligations.

For further information on the indicative impact of the Transaction on VRL's financial position, net debt, gearing and credit ratios, refer to section 6.4.

5. Participation of VRC in the Buy-Back

VRC and the Executive Directors have a relevant interest in approximately 68.2% of VRL's ordinary shares on issue and no preference shares. VRC and the Executive Directors have confirmed to VRL that they do not intend to sell any VRL ordinary shares during the Buy-Back period and on this basis there would be no prospect of them participating in the Buy-Back. It is anticipated that under the Buy-Back, VRC's voting power in VRL will not increase by more than 3% as at the date of this explanatory memorandum.

Figure 7 sets out VRC and the Executive Directors' voting power at various total volumes of preference shares and ordinary shares being bought back, for illustrative purposes only.

Figure 7 Indicative impact of the Transaction on VRC and the Executive Directors' voting power

Number of shares bought back	Variation implemented?	Ordinary shares on issue	Preference shares on issue	% of total shares held by VRC ¹	% VRC voting power ¹
0	No	114,217,649	52,235,451	46.8%	68.2%
4,500,000 ²	No	109,717,649	52,235,451	48.1%	71.0%
11,000,000 ³	Yes	155,453,100	–	50.1%	50.1%
35,000,000 ⁴	Yes	131,453,100	–	59.2%	59.2%

Notes:

- 1 Represents VRC and the Executive Directors
- 2 Represents 4.5 million ordinary shares bought back only
- 3 Represents the threshold amount of shares to be acquired under the Buy-Back for the Variation to be implemented
- 4 Represents the maximum number of shares to be acquired under the Buy-Back

6. Indicative impact of the Transaction on VRL

6.1 Introduction

The Transaction is expected to have a number of impacts on VRL. In summary, it may:

- eliminate the preference shares as a separate class of share capital in VRL;
- enhance the flexibility of VRL's dividend policy in the future;
- increase the VRL Group's net debt, gearing and interest expense;
- reduce the number of preference shares and ordinary shares on issue;
- improve VRL's total earnings per share;
- improve liquidity in the trading of VRL's shares on ASX;
- improve VRL's representation in the All Ordinaries index;
- decrease the voting power of ordinary shareholders not participating in the Buy-Back (including VRC and the Executive Directors); and
- increase the voting power of preference shareholders not participating in the Buy-Back.

For further information on the potential advantages and disadvantages of the Transaction, refer to section 3.

This section sets out details of the indicative financial impact of the Buy-Back on VRL. The Variation has no impact on VRL's financial statements.

6.2 Financial information

On 16 August 2010, VRL announced its 30 June 2010 results by providing its Appendix 4E to ASX. For further information on VRL's 30 June 2010 results, refer to section 1.8.

(a) Pro-forma information prepared

For the purpose of illustrating the indicative financial impact of the Transaction on the VRL Group, the following pro-forma financial information has been prepared:

- an abridged pro-forma consolidated income statement of the VRL Group for the year ended 30 June 2010; and

- an abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2010.

The abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2010 assumes that VRL had bought back preference shares and ordinary shares under the Buy-Back and implemented the Variation as at 30 June 2010. The abridged pro-forma consolidated income statement of the VRL Group for the year ended 30 June 2010, assumes that VRL had bought back preference shares and ordinary shares under the Buy-Back and implemented the Variation as at 1 July 2009.

Further details of the applicable assumptions are contained in this section 6.

It should be noted that the abridged pro-forma consolidated income statement and abridged pro-forma consolidated balance sheet set out in the tables in this section 6 do not purport to reflect the reported earnings or balances of VRL for the year ended 30 June 2010 or for any future period.

(b) The general nature of pro-forma financial information

The pro-forma financial information for VRL set out in this section is based on a large number of assumptions, including the key assumptions outlined below. VRL has prepared the pro-forma financial information based on historical actual results for the year ended 30 June 2010. The pro-forma financial information has been provided by VRL to illustrate the indicative impact of the Transaction under certain assumptions. Any variation to this indicative impact of the Transaction may be material because pro-forma financial information, by its very nature, is subject to uncertainties and contingencies, many of which are outside the control of the Directors and which may, amongst other things, result in the assumptions on which the pro-forma financial information is based being inaccurate.

The pro-forma financial information does not constitute a representation that future profits (or any other matter) will be achieved. Such information is presented for illustrative purposes only as a guide to assist VRL shareholders in considering whether to vote in favour of the Transaction and whether to participate in the Buy-Back. The pro-forma financial information and other forward looking statements are based on the information available to VRL at the date of this explanatory memorandum.

(c) Assumptions and risks

The actual impact of the Transaction on VRL's earnings per share, net debt, gearing and credit ratios is unable to be determined until the Transaction has been completed and is subject to uncertainties and contingencies, including the average price at which shares are bought back and the total number of shares bought back.

For illustrative purposes only, the Transaction, as set out in this section, has been assumed to be completed on the following basis:

- 6.5 million preference shares (representing 12.4% of the total number of preference shares on issue) are bought back and cancelled under the Buy-Back at an average price of \$2.35 per share (being the closing price of preference shares on 10 August 2010¹) and the total amount spent buying back shares is approximately \$15,275,000;
- 4.5 million ordinary shares (representing 3.9% of the total number of ordinary shares on issue and 12.4% of the total number of ordinary shares on issue not controlled by VRC and the Executive Directors) are bought back and cancelled under the Buy-Back at an average price of \$2.35 per share (being the closing price of ordinary shares on 10 August 2010¹) and the total amount spent buying back shares is approximately \$10,575,000; and
- the Variation is implemented.

Note:

- 1 For further information on the historical trading prices of the preference shares and ordinary shares, including the most recent on-market buy-back conducted in November 2009, refer to section 1.11

In aggregate, this represents 11 million shares in VRL bought back and cancelled under the Buy-Back for approximately \$25,850,000. This represents the threshold amount of shares to be acquired under the Buy-Back for the Variation to be implemented. Estimated transaction costs of \$5,000,000 have also been used in the pro-forma calculations.

For the purpose of preparing a pro-forma consolidated income statement for the year ended 30 June 2010, the above transactions are assumed to occur on 1 July 2009 and for the purpose of preparing a pro-forma consolidated balance sheet as at 30 June 2010, the above transactions are assumed to occur as at 30 June 2010.

The average prices and volumes used in this section 6 do not constitute a representation that these prices and volumes will be achieved. Such information is only provided for illustrative purposes of the financial impact of the Transaction as a guide to assist VRL shareholders in considering whether to vote in favour of the Transaction and whether to participate in the Buy-Back.

Shares may be bought back at prices, volumes and times determined by VRL to be appropriate from time to time and VRL reserves the right to buy back less than the maximum amount of shares or not to buy back any shares at all for any reason and to acquire shares at prices above or below the prices used in this section 6.

VRL shareholders should carefully consider this explanatory memorandum when assessing whether to vote in favour of the Transaction and whether to participate in the Buy-Back.

The pro-forma financial information should be read together with the:

- assumptions underlying their preparation as set out in this section 6.2;
- advantages and disadvantages of the Transaction for participating shareholders and continuing shareholders set out in section 3 of this explanatory memorandum; and
- other information contained in this explanatory memorandum.

(d) Basis of preparation

The pro-forma financial information has been prepared in accordance with the measurement and recognition requirements (but not all the disclosure requirements) of International Financial Reporting Standards as if the pro-forma transactions set out in this section 6 had occurred on the applicable dates.

On this basis, and by way of illustration only, the potential impact of the Transaction on the VRL Group is shown in sections 6.3 to 6.5 below.

6.3 Indicative impact of the Transaction on total earnings per share

Figure 8 sets out an abridged consolidated income statement of the VRL Group for the year ended 30 June 2010 and an abridged pro-forma consolidated income statement of the VRL Group for the year ended 30 June 2010 (assuming VRL had bought back preference shares and ordinary shares under the Buy-Back and implemented the Variation in accordance with section 6.2(c)).

Figure 8 shows the illustrative impact of the Transaction on VRL's total earnings per share for the year ended 30 June 2010 would be to increase it from 34.8 cents to 36.0 cents.

Figure 8 Abridged consolidated and pro-forma consolidated income statements of the VRL Group for the year ended 30 June 2010

Year ended 30 June 2010 (\$m)¹	Abridged consolidated income statement²	Adjustment for indicative Buy-Back	Pro-forma abridged consolidated income statement
EBITDA	254.5		254.5
Net finance costs ³	(62.0)	(2.5)	(64.5)
Depreciation and amortisation	(67.5)		(67.5)
Profit before tax	125.1	(2.5)	122.6
Tax expense ⁴	(36.8)	0.7	(36.1)
Profit attributable to non-controlling interest	(22.4)		(22.4)
Net profit attributable to members of VRL	65.9	(1.7)	64.1
Weighted average number of total shares on issue (m) ⁵	189.3	(11.0)	178.3
Total earnings per share (cents)	34.8		36.0

Notes:

- 1 Numbers may not add correctly due to rounding
- 2 All amounts exclude discontinued operations and material items of income and expense
- 3 Net finance cost adjustments assume an indicative marginal interest cost/saving of 8.0%
- 4 Tax expense adjustments assume an indicative marginal tax rate of 30.0%
- 5 Represents ordinary shares and preference shares on issue

(a) Indicative sensitivity analysis of the Transaction on total earnings per share

Figure 9 sets out the indicative impact of the Transaction on VRL's total earnings per share for the year ended 30 June 2010. This shows an illustrative sensitivity for the Buy-Back being completed at average prices of plus or minus \$0.25 above the Buy-Back prices assumed in section 6.2 (assuming 7.5 million shares are bought back, the threshold amount of 11 million shares are bought back or the maximum 35 million shares are bought back).

For example, assuming 7.5 million shares are bought back, the indicative impact of the Transaction on VRL's pro-forma earnings per share would be to increase it from 34.8 cents to 35.5 cents. Assuming 35 million shares are bought back, the indicative impact of the Transaction on VRL's pro-forma earnings per shares would be to increase it from 34.8 cents to 39.5 cents.

For example, assuming 11 million shares are bought back, if the average price is \$0.25 higher or lower, the indicative impact of the Transaction on VRL's pro-forma total earnings per share would be 0.1 cents per share lower or higher respectively.

Figure 9 Indicative sensitivity table of pro-forma total earnings per share of VRL for the year ended 30 June 2010¹

		Indicative average price paid during the Buy-Back (\$)		
		-0.25	Assumed price ²	+0.25
Number of shares bought back (m)	7.5	+0.1 cents	35.5 cents	-0.1 cents
	11.0	+0.1 cents	36.0 cents	-0.1 cents
	35.0	+0.3 cents	39.5 cents	-0.3 cents

Notes:

1 Represents pro-forma total earnings per share (excluding material items) adjusted for the indicative Buy-Back

2 Represents \$2.35 per preference share and ordinary share as set out in section 6.2

6.4 Indicative impact of the Transaction on the VRL Group's financial position

Figure 10 sets out selected information which has been derived from the balance sheet of the VRL Group as at 30 June 2010 (as presented in the Appendix 4E of VRL for the 12 months ended 30 June 2010) and an abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2010 (assuming VRL implemented the Variation on 30 June 2010 and bought back preference shares and ordinary shares under the Buy-Back).

Figure 10 shows the indicative impact of the Transaction on the VRL Group's financial position as at 30 June 2010.

Figure 10 Abridged consolidated and pro-forma consolidated balance sheet of VRL as at 30 June 2010

Year ended 30 June 2010 (\$m) ¹	Abridged consolidated balance sheet	Adjustment for indicative Buy-Back	Pro-forma abridged consolidated balance sheet
Assets			
Cash and cash equivalents	101.7	(5.0)	96.7
Other assets	1,926.1	1.5	1,927.6
Total assets	2,027.8	(3.5)	2,024.3
Liabilities			
Interest bearing loans and borrowings	928.8	25.9	954.7
Other liabilities	412.7		412.7
Total liabilities	1,341.6	25.9	1,367.4
Net assets	686.3	(29.4)	656.9
Issued capital ²	280.3	(29.4)	251.0
Reserves	319.7		319.7
Accumulated losses	(42.2)		(42.2)
Parent interests	557.8	(29.4)	528.4
Non-controlling interests	128.5		128.5
Total equity	686.3	(29.4)	656.9
Net debt	827.1	30.9	857.9
Net debt/EBITDA ³	3.25x		3.37x
EBITDA/net finance costs ³	4.10x		3.95x

Notes:

1 Numbers may not add correctly due to rounding

2 Issued capital includes ordinary share and preference share capital

3 EBITDA and net finance costs exclude discontinued operations and material items of income and expense

Figure 10 illustrates that the indicative impact of the Transaction on VRL's credit ratios as at 30 June 2010 is not significant.

(a) Indicative sensitivity analysis of the Transaction on financial position

Figure 11, Figure 12, Figure 13 and Figure 14 set out the indicative impact of the Transaction on the VRL Group's financial position as at 30 June 2010. These show an illustrative sensitivity for the Buy-Back being completed at average prices of plus or minus \$0.25 above the Buy-Back prices assumed in section 6.2 (assuming 7.5 million shares are bought back, the Variation threshold amount of 11 million shares are bought back, or the maximum of 35 million shares are bought back).

For example, if 7.5 million shares are bought back, the indicative impact of the Transaction on the VRL Group's net debt would be an increase of \$22.6 million, resulting in a pro-forma net debt as at 30 June 2010 of \$849.7 million. If 35 million shares are bought back, the indicative impact of the Transaction on VRL Group's net debt would be an increase of \$87.3 million, resulting in a pro-forma net debt as at 30 June 2010 of \$914.3 million.

For example, assuming 11 million shares are bought back, if the average price is \$0.25 higher or lower, the indicative impact of the Transaction on VRL's net debt/EBITDA would be 0.01x higher or lower.

Figure 11 Indicative cost to VRL of the Transaction

		Indicative average price paid during the Buy-Back (\$)		
		-0.25	Assumed price ¹	+0.25
Number of shares bought back (m)	7.5	-\$1.9m	\$22.6m	+\$1.9m
	11.0	-\$2.8m	\$30.9m	+\$2.8m
	35.0	-\$8.8m	\$87.3m	+\$8.8m

Figure 12 Indicative net debt as at 30 June 2010

		Indicative average price paid during the Buy-Back (\$)		
		-0.25	Assumed price ¹	+0.25
Number of shares bought back (m)	7.5	-\$1.9m	\$849.7m	+\$1.9m
	11.0	-\$2.8m	\$857.9m	+\$2.8m
	35.0	-\$8.8m	\$914.3m	+\$8.8m

Figure 13 Indicative net debt/EBITDA as at 30 June 2010²

		Indicative average price paid during the Buy-Back (\$)		
		-0.25	Assumed price ¹	+0.25
Number of shares bought back (m)	7.5	-0.01x	3.34x	+0.01x
	11.0	-0.01x	3.37x	+0.01x
	35.0	-0.03x	3.59x	+0.03x

Figure 14 Indicative EBITDA/net interest for the year ended 30 June 2010²

		Indicative average price paid during the Buy-Back (\$)		
		-0.25	Assumed price ¹	+0.25
Number of	7.5	+0.01x	3.99x	-0.01x
shares bought	11.0	+0.01x	3.95x	-0.01x
back (m)	35.0	+0.04x	3.69x	-0.04x

Notes:

1 Represents \$2.35 per preference share and ordinary share as set out in section 6.2

2 EBITDA excludes discontinued operations and material items of income and expense

6.5 Indicative impact of the Transaction on shares on issue

VRL has a total of 166,453,100 shares on issue, comprising 114,217,649 ordinary shares and 52,235,451 preference shares.

The number of shares that VRL may buy back is dependent on the availability of shares for sale on ASX, the price that VRL is willing to pay for those shares and the volume of shares VRL determines to be appropriate, having regard to the factors set out in section 2.

Figure 15 sets out the indicative impact on VRL's total number of shares on issue assuming the Transaction is completed and 7.5 million shares, the threshold amount of 11 million shares or the maximum 35 million shares are bought back.

Figure 15 Indicative impact of the Transaction on VRL's total number of shares on issue

Shares bought back			Shares remaining		
Ordinary shares	Preference shares	Total	Ordinary shares	Preference shares	Total
3,750,000	3,750,000	7,500,000	110,467,649	48,485,451	158,953,100
4,500,000	6,500,000	11,000,000	155,453,100	–	155,453,100
11,421,764	23,578,236	35,000,000	131,453,100	–	131,453,100

6.6 Impact on VRL's franking account balance

The Transaction is not expected to result in any reduction of VRL's franking account. The Buy-Back will be treated as a capital payment to participating shareholders (excluding shareholders who purchased VRL shares on revenue account such as banks and trading entities) and, as such, there will be no component of the Buy-Back amount that will be a dividend that would be franked. Moreover, the cost of the buy-back will be debited to VRL's share capital account.

6.7 Business operations

The Transaction is not expected to have a material impact on the underlying business operations of the VRL Group.

However, to the extent that shares are acquired under the Buy-Back, the funds used to complete the Buy-Back will not be available to pursue other growth opportunities as they arise or to undertake other capital management initiatives.

6.8 Dividend policy

If the Variation is not implemented, under VRL's constitution, if an ordinary dividend is recommended by Directors and declared, the dividend on preference shares will be the higher of 10.175 cents per share and the amount of all dividends payable in respect of that financial year on each ordinary share plus three cents per share.

On 16 August 2010, VRL announced its reported results for the year ended 30 June 2010. VRL stated in this announcement that no final dividend would be payable to ordinary shareholders or preference shareholders. The VRL Term Sheet for additional finance for the Transaction imposes certain conditions and limitations upon the amount of dividends that VRL is able to pay (including, but not limited to, precluding VRL from paying any dividends) until at least such time as the additional finance has been repaid in full.

In addition, the Directors of VRL can give no assurance as to future dividend policy, the extent of future dividends, nor the franking status as these will depend on the actual levels of profitability, capital requirements and taxation position of VRL at the relevant time.

6.9 Effect on control

If the Transaction is implemented in full, VRC and the Executive Directors will still control more than 50% of VRL. As such, the Transaction is not expected to have any material change of control implications for VRL. For further information, refer to section 5.

7. Tax implications for VRL shareholders

7.1 Tax opinion from Greenwoods & Freehills Pty Ltd on the variation of the rights attaching to the preference shares

**Greenwoods
& Freehills**

The Directors
Village Roadshow Limited
Level 1, 500 Chapel St
South Yarra VIC 3141

19 August 2010
Matter 90980

Dear Directors

Village Roadshow Limited Income tax consequences of variation of preference share rights

We have been instructed by Village Roadshow Limited (**VRL**), to prepare a taxation summary, for inclusion in an Explanatory Memorandum dated 24 August 2010, in relation to the proposed variation of rights attaching to VRL's preference shares.

Accordingly, this letter provides a summary of the Australian income tax and capital gains tax (**CGT**) implications arising from the proposed variation of rights attaching to VRL's preference shares held by investors who hold their preference shares on capital account for tax purposes (**Preference shareholders**). This letter does not deal with the position of investors who hold preference shares on revenue account or as trading stock (e.g. as part of a securities trading business).

All legislative references are to provisions of the Income Tax Assessment Act 1936 and to the Income Tax Assessment Act 1997. Capitalised terms not elsewhere defined in this letter have the same meaning as in the Explanatory Memorandum.

The information contained in this summary is general in nature and does not take into account the circumstances of particular shareholders. Shareholders should seek independent tax advice in light of their own particular circumstances.

The summary is based on the Australian income tax laws and administrative practice applicable as at the date of this letter.

Greenwoods & Freehills Pty Limited has given its consent to the inclusion of this letter in the Explanatory Memorandum.

(a) Proposed variation of rights

The Explanatory Memorandum provides details of VRL's proposal to vary the terms of its preference shares so that each preference share has the same rights as one VRL ordinary share. The proposal will not involve any preference share being redeemed or cancelled, and will not involve any new shares being issued. Moreover, VRL will not pay any amount to any shareholder in consideration for the variation of preference share rights.

(b) Summary

It is our opinion that the proposed variation of rights attaching to VRL's preference shares will not give rise to a taxable revenue or capital gain to VRL's shareholders.

(c) CGT

We consider that the proposed variation of the rights attaching to VRL's preference shares will not result in a taxable capital gain for Preference shareholders.

A share is a CGT asset. There is no specific legislative provision dealing with the CGT consequences of a variation of rights attaching to a share.

Taxation Ruling TR 94/30 (**TR 94/30**), which is binding on the Commissioner of Taxation, sets out his views on the CGT consequences arising from a variation of share rights.

TR 94/30 states that while shares are comprised of a bundle of rights, those rights are not separate pieces of property capable of being divided out and held separately. TR 94/30 goes on to state that a share itself is the relevant asset for CGT purposes and not its constituent rights.

Accordingly, TR 94/30 states that the variation of rights attaching to a share does not result in either a full or partial disposal of an asset for CGT purposes unless there is a cancellation or redemption of the share. No such cancellation or redemption is proposed by VRL.

Therefore, the proposed variation of rights attaching to the preference shares should not result in a CGT:

- disposal (CGT event A1);
- cancellation, surrender or similar ending (CGT event C2); or
- creation of contractual or other rights (CGT event D1).

The variation of rights attaching to the preference shares will result in a 'CGT event H2' occurring in relation to the preference shares. This is because the variation of rights attaching to the preference shares is 'an act, transaction or event' in relation to those shares.

Even so, Preference shareholders should not make a capital gain from the variation of rights attaching to their shares. This is because no Preference shareholder will receive or be entitled to receive money or other non-monetary consideration in respect of the variation of the rights attaching to the preference shares. Therefore, although CGT event H2 will happen in respect of the preference shares, Preference shareholders will not make a capital gain. Those Preference shareholders who are resident in Australia may make a modest capital loss to the extent of any incidental costs they incur in respect of the variation. The relevant costs can be found at the following web address:

http://www.ato.gov.au/individuals/content.asp?doc=/content/36557.htm&page=2#P13_2406

(d) Value shifting

The 'direct value shifting' rules in Division 725 can apply if, in conjunction with other conditions being satisfied, there is both a decrease in the market value of some of the shares in a company, and an increase in the market value (or an issue at a discount) of other shares in that company.

Where they apply, the direct value shifting rules generally nullify the effect of a value shift by adjusting the tax cost bases of shares in the company. However, in some instances, the rules may treat the value shift as if it were a partial realisation of the shares from which the value was shifted, possibly resulting in an assessable gain.

Following the announcement of the proposal on 9 August 2010 and up to the close of ASX trading on 19 August 2010, the share prices of both the preference shares and the ordinary shares have increased, and have been broadly in line. If those share prices remain broadly in line, it is unlikely that a relevant shift in value will have occurred.¹

However, even if an inadvertent shift in value was to occur, we note that it would have to pass between shares held by one or more 'affected owners' to be capable of having any value shifting consequences. In VRL's case, an affected owner would be a controller of VRL and the controller's associates.² Accordingly, only Village Roadshow Corporation Pty Ltd and its associates could be affected owners in VRL. We are advised that none of these affected owners holds any preference shares. Accordingly, the variation of rights attaching to VRL's preference shares would not lead to a shift in value from one affected owner to another. That is, the only possible shifts in value (if any) that could arise from the variation of rights attaching to VRL's preference shares would be to (or from) shares held by an affected owner, from (or to) shares held by an entity that is not an affected owner. Therefore, any inadvertent shift in value would not have any consequence under the direct value shifting rules.

Having regard to the above, we consider that the variation of rights attaching to the preference shares will not give rise to a taxable gain or cost base adjustments under the direct value shifting provisions.

Yours sincerely



Richard Shaddick
Director
Greenwoods & Freehills
+61 3 9288 1412
+61 4 0950 5882
richard.shaddick@gf.com.au



Hayden Scott
Director
Greenwoods & Freehills
+61 3 9288 1545
+61 4 0850 5888
hayden.scott@gf.com.au

Notes:

- 1 Refer to section 1.11 of the explanatory memorandum
- 2 Although a further class of 'affected owner' is a so-called 'active participant', no shareholder in VRL would be an active participant. This is because we have been advised that it is reasonable to assume that there will be, at all relevant times, more than 300 shareholders in VRL and the shareholding in VRL will be sufficiently dispersed. That is, 20 or fewer individuals will not control at least 75% of the income, capital or voting rights in VRL.

7.2 The Buy-Back

(a) General

This outline contains a general overview of the Australian taxation considerations for VRL Australian resident shareholders (other than temporary residents) who hold their VRL shares on capital account. The outline does not address the tax treatment for VRL shareholders who hold their shares on revenue account, such as banks and trading entities.

The information in this outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such. VRL shareholders should seek their own tax advice.

(b) Income Tax consequences of selling shares into the Buy-Back

The sale of ordinary shares or preference shares as part of the Buy-Back will be a capital gains tax ("CGT") event for VRL shareholders who will:

- make a capital gain if the capital proceeds received for their VRL shares are greater than the cost base of their VRL shares; or
- make a capital loss if the reduced cost base of their VRL shares is greater than the capital proceeds received for their VRL shares.

Capital gains and capital losses of the VRL shareholder in an income year (after deducting any unused capital loss from prior years) from all sources are aggregated to determine whether there is a net capital gain or net capital loss for that income year.

A net capital gain for the income year is included in the VRL shareholder's assessable income and is subject to income tax at the VRL shareholder's marginal tax rate. A net capital loss for the income year cannot be deducted against other income for income tax purposes but may be carried forward to be offset against capital gains derived in future income years. Specific capital loss carry forward rules apply to VRL shareholders that are companies.

Individuals, complying superannuation entities or trustees that have held VRL shares for at least 12 months should generally be entitled to discount the amount of the capital gain (after the application of any current year or carry forward capital losses). The amount of this discount is 50% in the case of individuals and trustees and 33⅓% for complying superannuation entities. This is referred to as the "CGT discount". The CGT discount is not available to VRL shareholders that are companies.

Where the VRL shareholder is a trustee of a trust, the CGT discount may flow through to the beneficiaries in that trust, other than beneficiaries which are companies. VRL shareholders that are trustees should seek specific advice regarding the availability of discount capital gains for themselves or beneficiaries.

VRL shareholders who acquired their shares at or before 11.45am on 21 September 1999 may choose to index the cost base of their shares for inflation in accordance with the consumer price index instead of applying the CGT discount as discussed above. Indexation is frozen as at after 30 September 1999 and does not take into account inflation after that date.

(c) GST consequences

No GST should be payable by VRL shareholders in respect of their sale of ordinary shares or preference shares as part of the Buy-Back.

VRL shareholders may incur GST on costs (such as legal and adviser fees) that relate to their participation in the Buy-Back. VRL shareholders may not be entitled to full input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

8. Other material information

- (a) Except as set out in this explanatory memorandum, in the opinion of the Directors of VRL, there is no other information material to the making of a decision on how to vote on the Buy-Back Resolution, the Amendment Resolution or the Variation Resolution, being information that is within the knowledge of any Directors of VRL which has not previously been disclosed to VRL shareholders.
- (b) VRL will issue a supplementary document to the explanatory memorandum if it becomes aware of any of the following between the date this explanatory memorandum is lodged with ASIC and provided to ASX and the date the meetings are held:

- (i) a material statement in this explanatory memorandum is false or misleading in a material aspect;
 - (ii) a material omission from this explanatory memorandum;
 - (iii) a significant change affecting a matter included in this explanatory memorandum; or
 - (iv) a significant new matter has arisen and it would have been required to be included in this explanatory memorandum if it had arisen before the date this explanatory memorandum is lodged with ASIC and provided to ASX.
- (c) Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, VRL may circulate and publish any supplementary document by:
- (i) making an announcement to ASX;
 - (ii) placing an advertisement in daily newspapers (as defined in the Corporations Act) ordinarily published in Australia;
 - (iii) posting the supplementary document to VRL shareholders at their registered address as shown in VRL's register of shareholders; or
 - (iv) posting a statement on the VRL corporate website,
- as VRL in its sole and absolute discretion considers appropriate.

Appendix A

NOTICE OF GENERAL MEETING OF SHAREHOLDERS

NOTICE IS GIVEN that a General Meeting of the ordinary shareholders and preference shareholders of Village Roadshow Limited (**Company** or **VRL**) will be held at Cinema 11, Jam Factory Complex, 500 Chapel Street, South Yarra VIC 3141 on 24 September 2010 at 9.30am.

BUSINESS

1. ON-MARKET BUY-BACK APPROVAL (BUY-BACK RESOLUTION)

To consider and, if thought fit, pass the following resolution:

Subject to the passing of resolution 2 and subject to the passing of the Variation Resolution (as defined in Appendix B to the explanatory memorandum accompanying the notice of this meeting), that the Company authorises and approves for the purposes of section 257B and section 257C of the Corporations Act 2001 (Cth) and for all other purposes the on-market buy-back in excess of the 10/12 limit of:

- (a) up to 11.4 million of the existing ordinary shares in the Company;
- (b) A Class preference shares in the Company,

but so that the total number of shares bought back does not exceed 35 million.

2. AMENDMENT TO VRL'S ARTICLES OF ASSOCIATION (AMENDMENT RESOLUTION)

To consider and, if thought fit, pass the following resolution which is proposed as a **special resolution**:

*That the Articles of Association of the Company are modified as set out in the Schedule to this resolution with effect on the date specified by or determined in accordance with section 246D of the Corporations Act as the date upon which the modification and the variation of rights attaching to A Class preference shares takes effect (**Statutory Date**), subject to the satisfaction of the following conditions:*

- (a) *on or before the Statutory Date, the passing of resolution 1 (**Buy-Back Resolution**) and the Variation Resolution (as defined in Appendix B to the explanatory memorandum accompanying the notice of this meeting); and*
- (b) *on or before the later of the Statutory Date and 60 days after the date that this resolution is passed, the Company buying-back at least 11 million shares under the buy-back authorised by the Buy-Back Resolution (**Buy-Back Condition**).*

Schedule

- 1. Delete "; and" at the end of Article 1.1(t) and substitute ";
- 2. Delete "." at the end of Article 1.1(u) and substitute "; and".
- 3. Insert the following immediately after Article 1.1(u):
 - "(v) **"Variation Notice"** has the meaning given in Article 2.4(c)(i)."
- 4. Insert the following immediately after Article 2.4(b):
 - "(c)
 - (i) The Company must on or before the date that is 30 days after the date that the amendment to these Articles of Association that inserted this Article 2.4(c) takes effect give to the Exchange a notice under this Article in

respect of all (and not some) of the A Class preference shares (**Variation Notice**).

- (ii) A Variation Notice may only be given once and is irrevocable.
- (iii) At 7.00pm (Melbourne time) on the date specified in the Variation Notice (being a date no earlier than the date of the Variation Notice), the rights attaching to each A Class preference share will be varied as follows:
 - (A) each A Class preference share confers all of the rights attaching to one fully paid ordinary share;
 - (B) all other rights or restrictions conferred on the A Class preference share under Articles 2.4(a) and (b) and elsewhere in these Articles of Association or under the terms of issue of the A Class preference share will no longer have effect; and
 - (C) the A Class preference share will rank equally in all respects with all fully paid ordinary shares then on issue and the Company will issue a statement that the holder of that share holds a share so ranking,

with the effect that each A Class preference share immediately before the variation is, immediately on and after the variation, one fully paid ordinary share.

- (iv) The operation of Article 2.4(c)(iii) in relation to an A Class preference share does not constitute the cancellation, redemption or termination of the A Class preference share or an issue, allotment or creation of a new share but is a variation of the rights attaching to the A Class preference share so that those rights are identical to, and indistinguishable from, the rights attaching to one ordinary share."

Dated: 24 August 2010

By order of the Board
P.S. Leggo



Group Company Secretary

Appendix B

NOTICE OF GENERAL MEETING OF PREFERENCE SHAREHOLDERS

NOTICE IS GIVEN that a general meeting of the preference shareholders of Village Roadshow Limited (**Company** or **VRL**) will be held at Cinema 11, Jam Factory Complex, 500 Chapel Street, South Yarra VIC 3141 on 24 September 2010. The meeting will commence upon completion or earlier adjournment of the General Meeting which will commence at 9.30am (Melbourne time).

BUSINESS

VARIATION OF THE RIGHTS ATTACHING TO PREFERENCE SHARES (VARIATION RESOLUTION)

To consider and, if thought fit, pass the following resolution which is proposed as a **special resolution**:

"Subject to the Buy-Back Resolution and the Amendment Resolution (each as defined in Appendix A to explanatory memorandum accompanying the notice of this meeting) being passed, that for the purposes of Article 10 of the Company's Articles of Association and section 246B of the Corporations Act 2001 (Cth) and for all other purposes, the preference shareholders approve and sanction the variation of the rights attaching to A Class preference shares effected or authorised by the Amendment Resolution and by the Articles of Association of the Company as amended by the Amendment Resolution.

Dated: 24 August 2010

By order of the Board
P.S. Leggo



Group Company Secretary