

3 January 2007

CAPITAL RETURN & 2007 PROFIT FORECAST UPDATE

Shareholders of Village Roadshow passed both of the special resolutions put to the general meeting on Friday 22nd December. This confirms the return of capital of 15 cents per ordinary and preference share with payment expected on 17 January 2007. As previously reported, this will cost approximately \$39.3 million in cash.

The Company advises it has clarified its accounting policy in relation to the treatment of borrowing costs to include the fair value movements of interest rate derivatives relating to the financing of the film production division. The borrowing and related hedging derivatives are only recourse to and are specific to the film production slate. Previously these derivatives were marked to market partially through the Income Statement in accordance with AASB 139. The unrealised fair value movement which would have been recognised in the 2007 Income Statement is currently reflecting a loss of approximately \$13 million based on the fair value movement to 31 December 2006. These unrealised derivative gains and losses will continue to fluctuate, however by the end of the hedging period will net to zero on a cumulative basis. The fair value movements on these derivatives were not previously recognised in accounting for the annual film portfolio exploitation profit.

Following this clarification, which was discussed with the Company's auditors, the Company advises that a component of the fair value movement will now be treated as a borrowing cost and included in the film exploitation profit calculation. The Company believes this gives a more relevant and reliable reflection of the actual film exploitation result on an annual basis.

Previously the Company had expectations for the 2007 financial year of a Net Profit after Tax of \$27 million including a loss of approximately \$13 million as a result of fair value movements (as noted above). Following the change in accounting treatment, Net Profit after Tax is now expected to be approximately \$36 million including an approximate \$4 million unrealised derivative loss (based on the 31 December 2006 fair value movement). Net Profit after Tax before accounting for the fair value movements remains unchanged at approximately \$40 million.

The change in accounting treatment will also lead to an amendment of the prior year results from a previously reported Net Loss after Tax of \$35.1 million to a Net Loss after Tax of approximately \$40.7 million. Results for the 2006 financial year excluding the fair value movements remain unchanged.

Final adjusted numbers will be confirmed and disclosed as part of the Company's half year reporting.

For further details please contact Peter Foo on 03 9667 6696.