18 October 2004

COMPANY UPDATE

IMPLEMENTATION OF CAPITAL MANAGEMENT OBJECTIVES - ORDINARY SHARE BUY-BACK

PROVISION FOR GROUCHO LITIGATION

PROFIT OUTLOOK

BOSWELL DEVELOPMENTS

ON-MARKET BUY-BACK OF ORDINARY SHARES

The Directors of Village Roadshow Limited (other than Messrs R Kirby, J Kirby and G Burke, who are directors of Village Roadshow Corporation Limited ("VRC"), the controlling shareholder of the Company) have met to discuss the further implementation of the Company's capital management objectives following the authorisation by shareholders on Friday 8 October 2004 for the Company to buy-back on market up to 43 million ordinary shares of the Company in the period ending 8 October 2005.

The Company has announced today that the Directors have resolved that the Company will buy-back up to 43 million ordinary shares for up to $92.45m ("Buy-Back") as part of the implementation of the Company's capital management objectives.

The Company proposes to commence the on-market buy back of ordinary shares on Thursday 21 October 2004.

CAPITAL MANAGEMENT OBJECTIVES

The Board of Village Roadshow Limited announced on 26 August 2004 that it had reviewed and affirmed the capital management objectives outlined in the Company's announcement to Australian Stock Exchange Limited on 1 July 2004. The Directors (excluding those Directors who are also directors of VRC) have reaffirmed these capital management objectives.

In brief these can be summarized as follows:

- the overall capital management objective is to create a more efficient capital structure;
- the Directors are of the view that the Company's current capital structure has been a significant impediment to the reflection of the Company's underlying value in share market prices for both ordinary and preference shares;

- the Directors also believe that the current capital structure has the effect of inhibiting the distribution of income on a consistent and sustainable basis to holders of both ordinary and preference shares which thereby reduces the investment appeal of both ordinary and preference shares; and

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

To meet the target issued capital of between 235m and 285m under the Company's capital management strategy, the Company currently intends to undertake further on-market buy-backs of up to between 36.5m and 86.5m shares.

A copy of the 26 August 2004 announcement is contained in the Booklet sent to shareholders convening the general meeting for 8 October 2004 ("Booklet").

A copy of the Booklet is available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au).

The on-market buy-back announced today is in respect to 43 million ordinary shares and is consistent with these capital management objectives.

Shareholder Authorisation of On-Market Buy-Back of Ordinary Shares

Convening of Meeting

In order to enable the Company to maintain flexibility in any future buy-back(s), the Directors convened a general meeting of shareholders to seek approval for the Company to buy-back up to 43 million ordinary shares (being approximately 20.34% of the current issued ordinary shares) on market in the 12 months to 8 October 2005.

The Booklet was released to ASX on 3 September 2004 and mailed to shareholders on 8 September 2004.

Takeovers Panel

Following an application by Boswell Filmgesellschaft mbH ("Boswell") to the Takeovers Panel on 17 September 2004, the Company confirmed in an announcement to ASX on 1 October 2004 that it had given an undertaking to the Takeovers Panel. A copy of the Company's 1 October announcement is available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au). A copy of the undertaking is attached to Media Release No: 88/2004 of the Takeovers Panel which is available on the Panel's website (www.takeovers.gov.au) and the ASX website (www.asx.com.au).

The effect of such undertaking was that the Company would not buy-back any ordinary shares pursuant to any authorisation approved by shareholders at the general meeting unless such approval was given by a majority of votes cast on the resolution to be put to the general meeting by shareholders other than VRC and its associates.

The Takeovers Panel made a Media Release on 1 October 2004 setting out its decision in respect to Boswell's application of 17 September 2004. A copy of Media Release No: 88/2004 of the Takeovers Panel is available on the Panel's website (www.takeovers.gov.au) and the ASX website (www.asx.com.au)

A further Media Release No: 90/2004 was made by the Takeovers Panel on 7 October 2004. The Panel advised that it expected that the Company would take account of votes cast by or on behalf of Canberra Theatres Limited ("CTL") on the buy-back resolution to be put to the general meeting in the same manner as any other votes cast by shareholders who are not associates of VRC.

A copy of Media Release 90/2004 is available on the Panel's website (www.takeovers.gov.au).

Results of General Meeting

At the general meeting of shareholders held on 8 October 2004, the Chairman of the meeting, Peter Jonson, gave an address to shareholders summarising the purpose of the meeting. A copy of the Chairman's address is available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au)

At the general meeting, the resolution to authorise the on-market buy-back of up to 43 million ordinary shares was passed by a majority of shareholders other than VRC and its associates.

An announcement that the resolution was passed and providing the information required under section 251AA of the *Corporations Act* was made by the Company to ASX on 11 October 2004. A copy of this announcement is available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au).

SOURCE OF FUNDS FOR THE BUY-BACK

At the time of the issue of the Booklet, the Company had not put in place the financing for further on-market buy-backs.

In the Booklet, the Company advised that there were a number of transactions which, if completed, would make funds available for the buy-back of shares:

- negotiations were continuing for the sale of the Company's interest in the cinema joint venture in Taiwan; and
- proposals in respect to new borrowings for some of the Company's cinema interests were then under negotiation with banks.

The Directors advised that they believed that there were reasonable grounds to believe that these transactions would be completed in the next few months and that if all of those transactions were successful, it was expected that funding of up to $100m will be available to the Company for further buy-backs.

Since the issue of the Booklet :

- the Company announced on 24 September 2004 that it had sold its 50% interest in the mall advertising business Eye Shop to its joint venture partner for $14.9m. A pre-tax profit of $7.7m will be realised by the Company on the sale. The availability of these funds was not anticipated when the Booklet was issued.

  In this announcement the Company also gave a further film production update in respect to the year ending 30 June 2005 following the performance below the Company's expectations of the film *Catwoman*.

- the Company announced on 29 September 2004 that negotiations had been completed and binding legal commitments had been entered into in respect to a new finance facility led by ANZ Bank for the Company's interests in its Australian multiplex joint venture with Greater

Union ("Australian Cinema Facility"). Discussions with the ANZ Bank in respect to an additional $20m under this facility continue to progress and the Directors are optimistic that that this additional capacity will be available.

The Australian Cinema Facility is for a fixed term of 5 years with semi-annual principal reductions of either $3.75m ($60m drawdown) or $5m ($80m drawdown) commencing in June 2006 with a bullet of either $33.75m ($60m drawdown) or $45m ($80m drawdown) at the end of 5 years.

Copies of the Company's announcements of 24 and 29 September 2004 are available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au).

The Company currently has available to it cash deposits of at least $75m (including the proceeds from the sale of Eye Shop).

Negotiations continue to progress for the sale of the Company's interest in the cinema joint venture in Taiwan ("Taiwan Sale") and the Directors remain confident that this transaction will be consummated in the next week or so. Based on the current negotiations, the Company expects that, if the Taiwan Sale is consummated:

- the Company will, based on current exchange rates, realise proceeds of US$19 million (approximately A$26.4 million) and a pre-tax profit of approximately $2.64 million;

- a non-refundable cash and security deposit of US$11.4 million is payable on signing with approximately US$3.42 million (approximately A$4.75 million) being released to the Company on signing and the balance of the proceeds available on closing in January 2005.

In assessing the Buy-Back, the Directors have reviewed the Company's projected cash flows, capital needs over the next 3 years and existing contingent liabilities.

The Buy-Back will require up to approximately $93.45 million (including legal, brokerage and other costs of approximately $1 million) and be funded primarily out of:

- funds available under the Australian Cinema Facility (initially up to $60 million); and

- a portion of the cash on deposit (including the proceeds of the sale of Eye Shop) (up to $33.45 million).

Any proceeds from the Taiwan Sale will initially be used to reduce debt and/or increase cash on deposit.

CORPORATE BANKING FACILITY

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

As announced on 12 October 2004, ANZ Bank has given its consent to the Company buying-back up to 43 million ordinary shares.

The consent is valid until 12 October 2005 (the approval by shareholders on 8 October 2004 is valid until 8 October 2005) and is not subject to any other terms and conditions. In particular, the consent of the ANZ Bank is not subject to any additional financial covenants or security.

ANZ Bank consent is not required for a buy-back of A class preference shares.

A copy of the Company's announcement of 12 October 2004 is available on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au)

FINANCIAL COVENANTS AND SOLVENCY

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

Management cash flow forecasts and financial covenants for the next 3 years have been considered by the Board. In addition, the Directors have reviewed the contingent liabilities referred to in Notes 23(a)(viii) to (xii) to the audited financial statements of the Company for the year ended 30 June 2004 ("2004 Financial Statements").

The 2004 Financial Statements were released on 3 September 2004 and are also set out in Annexure 3 to the Booklet (see below under "Contingent Liabilities").

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

- following the Buy-back, the Company will be able to continue to meet its financial and other covenants under its relevant banking facilities; and

- the Buy-Back will not materially prejudice the Company's ability to pay its creditors

FINANCIAL EFFECT OF THE BUY-BACK ON THE COMPANY

Based on an average price for the ordinary shares to be bought back under the Buy-Back being $2.15, the Buy-Back will cost the Company approximately $93.45 million (including legal, brokerage and other associated costs).

It is important to note that the Buy-Back may occur at an average price above or below $2.15 per Ordinary Share, subject to the Listing Rules.

Since release of the 2004 Financial Statements on 3 September 2004, the Company has:

- closed the sale of its interest in Eye Shop for $14.9 million and announced the impact of the negative effect of the performance of the film, *Catwoman* (see above);

- established the Australian Cinema Facility (see above);

- following the review of contingent liabilities and a meeting with representatives of the plaintiffs on 18 October 2004, the Directors believe that a provision of $10 million should now be made in respect of the contingent liability referred to in Note 23(a)(xii) of the 2004 Financial Statements (see below under "Contingent Liabilities")

A pro forma statement of financial position of the Company as at 30 June 2004 based on a buy-back of 43 million ordinary shares at a total price of $93.45 million (including legal, brokerage and other costs of approximately $1 million) together with the above events and assuming the Taiwan Sale is effected as at that date is attached to this announcement as **Annex 1**.

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

In Media Release No: 88/2004 of the Takeovers Panel of 1 October 2004 referred to above, the Panel observed that if the price at which the Company was to buy-back ordinary shares was materially away from the indicative terms disclosed in the Booklet, at some point, the Company would no longer be able to rely on the shareholder authorisation obtained at the general meeting of 8 October 2004. The indicative price in the Booklet was $2.15 per ordinary share and, as a result, the Company will not buy-back shares at a price per share materially above $2.15 under the Buy-Back

There is an 'interest cost' related to either cash used for the Buy-Back that would otherwise have been earning interest, or debt used to fund the Buy-Back. This 'interest cost' is not expected to exceed (on an after tax basis) approximately $2.93 million per annum.

Subject to the risks associated with the business and operations of the Company, the Company believes that the only material effect on the Company's financial position as a result of the Buy-Back will be this 'interest cost' and a reduction in net equity of an amount expended by the Company in undertaking the Buy-Back (ie, a reduction in net equity of approximately $93.45 million, on the assumption that the ordinary shares are bought back at the price of $2.15 per share).

Assuming the Buy-Back is completed this year and the Taiwan Sale is effected and as a result of the other events that have occurred since 29 September 2004 referred to above, the Company advises that its estimate of the Group's net profit after tax for the year ending 30 June 2005 has been reduced from approximately $45 million to approximately $43 million.

The reduction in issued capital arising from the Buy-Back will also have the effect of increasing projected earnings per share (based on all issued shares) by approximately 1.1 cents per share..

PARTICIPATION OF VRC IN THE BUY-BACK

VRC currently has a relevant interest in approximately 56.11% of the ordinary shares.

Prior to the issue of the Booklet, VRC advised the Company that it was undecided as to whether or not it will participate in the Buy-Back.

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

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

to undertake the Buy-Back.

Assuming VRC does not participate in the Buy-Back , VRC's voting power in the Company will increase from approximately 56.11% to:

- 59.11% if 25% of the 43 million ordinary shares are bought back under the Buy-Back;
- 62.46% if 50% of the 43 million ordinary shares are bought back under the Buy-Back;
- 66.21% if 75% of the 43 million ordinary shares are bought back under the Buy-Back; and
- 70.43% if 100% of the 43 million ordinary shares are bought back under the Buy-Back.

Shareholders should note, because the buy-back resolution put to shareholders on 8 October 2004 was approved by shareholders not associated with VRC, the Takeovers Panel would see no reason why the change in VRC's voting power as a consequence of the Buy-Back would be objectionable.

Listing Rule 10.1 has the effect that the maximum aggregate amount the Company may pay to VRC under the Buy-Back must be less than 5% of the 'equity interests' (as defined in the Listing Rules) of the Company as set out in its audited financial statements for the year ended 30 June 2004 (5% of such 'equity interests' being $47,435,900) unless shareholder approval is obtained for the purposes of that Listing Rule and an independent expert's report is provided to shareholders. The resolution passed by shareholders on 8 October 2004 did ***not*** constitute shareholder approval for the purposes of the Listing Rule.

The effect is that, assuming a Buy-Back price of $2.15 per ordinary share, the maximum number of ordinary shares the Company may buy-back from VRC under the Buy-Back is 22,063,209. If the Buy-Back price is less, the number of shares able to be bought back from VRC will be greater and if the Buy-Back price is greater, the number of shares able to be bought back from VRC will be less.

As noted in the Booklet, VRC has provided a written undertaking to the Company that it will not participate in any buy back of ordinary shares that results in a breach by the Company of Listing Rule 10.1.

DIVIDEND FOR YEAR ENDED 30 JUNE 2004

If a dividend was paid on both the ordinary shares (7.175 cents) and the A Class preference shares (10.175 cents) on issue at 30 September 2004, a cash payment of approximately A$26m would be required to be made from the Company's cash reserves or credit facilities.

As previously advised to shareholders, with the capital management objective remaining a priority, the Directors believe that the interests of the Company and its shareholders would be best served by deploying these funds in the buy-back of further shares.

In addition, the Company considers that this amount could be relevant in effecting further buy backs in terms of cash flow, bank covenants and in obtaining the necessary ANZ bank approvals.

Having regard to the foregoing and following a review of the audited accounts for the year ended 30 June 2004, the Directors have previously advised that they determined that no dividend will be recommended on ordinary or preference shares for the year ended 30 June 2004.

In accordance with previous announcements, consideration of dividends for the year ending 30 June 2005 will be made following the review of the audited accounts for the year ending 30 June 2005 and in light of the then current circumstances, including the outcome of the Company's capital management strategy.

It is expected that this review will take place at the end of August 2005.

CONTINGENT LIABILITIES

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

(viii) Claims – Village Roadshow Pictures (USA) Inc

There has been no material change in respect of the Meeker & Hool litigation referred to in this Note since 3 September 2004, the date of the 2004 Financial Statements. The plaintiffs' motion to add the Company as a judgment debtor to the VRP USA judgement has been set for 17 November 2004. As stated in the 2004 Financial Statements, the Company will oppose this motion.

(ix) Other contingent liabilities – Film Production

There has been no change to the terms of the revolving USD900 million film financing facility since 3 September 2004. The Company does not believe that the performance of the film, *Catwoman*, (referred to in its announcement of 24 September 2004) will result in any material permanent difference to the arrangement referred to in the Note.

(x) Other contingent liabilities – Income Tax

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

(xi) Other contingent liabilities – Claim received from Mr Peter Ziegler

A court ordered mediation, which took place on 4 October 2004, did not result in a resolution of this proceeding.

As set out in the Note the Company does not believe this claim will have any material effect on its financial position. A trial date has been set, commencing in March 2005 but the Company does not believe, having regard to the nature of the claim, that a resolution will be reached for a number of years.

(xii) Other contingent liabilities – Claim received from Groucho II Partners

Following the review referred to above and a meeting with representatives of the plaintiffs on 18 October 2004, the Directors believe that a provision of $10 million should now be made in respect of any and all claims in respect of the proceedings referred to in the Note.
Details of Contingent Liabilities

Full details of these contingent liabilities are set out on pages 42 and 43 of the 2004 Financial Statements (including on pages 66 and 67 of the Booklet). A copy of the 2004 Financial Statements can be found on the Company's website (www.villageroadshow.com.au) and the ASX website (www.asx.com.au)

BOSWELL DEVELOPMENTS

The Company has today received a letter dated 17 October 2004 from Boswell ("Boswell Letter") advising that it is working on a proposal (and has apparently been doing so for the past year) to acquire all of the ordinary shares in the Company.

The text of the Boswell letter is attached to this announcement as **Annex 3**.

The Company has this evening replied to the Boswell Letter. In essence, the Company has serious doubts about the capacity of Boswell to put forward any meaningful proposal capable of acceptance by the Company's shareholders. Boswell has attempted on a number of occasions to thwart the Company's capital management objectives since 2003 and the Company believes this is simply one further attempt to do so.

A copy of the Company's reply to Boswell is attached to this announcement as **Annex 2**.

As the Boswell Letter does not constitute notice of intention to make a takeover bid and in light of the matters set out in the Company's reply, the Directors do not believe it is in the best interests of shareholders to delay the Buy-Back.

ADDITIONAL INFORMATION

Since the issue of the Booklet and the 2004 Financial Statements on 3 September 2004, the following announcements have been made to ASX in respect of the Company:

- This announcement – 18 October 2004
- ANZ consents to ordinary buy-back – 12 October 2004
- Non-VRC Shareholders Endorse Capital Management Objectives – 11 October 2004
- Chairman's Address to Shareholders – 8 October 2004
- Village Roadshow Limited 03: Panel Decision – 1 October 2004 (released by Takeovers Panel)
- General Meeting - 8/10/2004 - Update - 1 October 2004
- General Meeting - Update: Source of Funds for Buy-Back - 29 September 2004
- Eye Corp acquires 100% of Eye Shop - 24 September 2004 (released by Ten Network Holdings)
- Sale of interest in Eye Shop/Further film production update - 24 September 2004
- Village Roadshow Limited 03 - Panel Receives Application - 17 September 2004 (released by Takeovers Panel)
- Change in substantial holding - 15 September 2004 (lodged by Granada)
- Change in substantial holding - 14 September 2004 (lodged by Granada)
- Change of Director's Interest Notice x 3 – 9 September 2004
- Standard & Poor's Ann: Changes to S&P/ASX Indices – 9 September 2004 (released by S&P)
- General Meeting booklet/proxy mail out to shareholders - 8 September 2004
- Change in substantial holding x 2 - 7 September 2004 (lodged by Granada)

Copies of each of these as well as the Booklet and 2004 Financial Statements are available on the ASX website (www.asx.com.au)

ENQUIRIES: Peter Foo
Finance Director

03 9667 6666

ANNEX 1

VILLAGE ROADSHOW LIMITED GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Audited Results June 2004 A$000	Proposed Buyback Adjustments A$000	Proforma Adjusted Position A$000
Current Assets				
Cash		$110,076	7,850	$117,926
Receivables		$313,869		$313,869
Film library (net)		$250,822		$250,822
Inventories		$2,669		$2,669
Current tax assets		$1,619		$1,619
Other		$23,073		$23,073
Total Current Assets		$702,128	7,850	$709,978
Non-current Assets				
Receivables		$198,236	(23,760)	$174,476
Investments (equity accounted)		$105,221	(7,200)	$98,021
Other financial assets		$7,601		$7,601
Other property, plant & equipment (net)		$251,547		$251,547
Intangibles (net)		$74,105		$74,105
Deferred tax assets		$24,916		$24,916
Radio licences (net)		$464,635		$464,635
Film library (net)		$523,104		$523,104
Security deposits		$102,739		$102,739
Other		$9,046		$9,046
Total Non-current Assets		$1,761,150	(30,960)	$1,730,190
Total Assets		$2,463,278	(23,110)	$2,440,168
Current liabilities		$534,516		$534,516
Total Current Liabilities		$534,516		$534,516
Non-current liabilities				
Payables		$53,750		$53,750
Interest bearing liabilities	- excl convertible notes	$765,216	60,000	$825,216
	- convertible notes	$13,461		$13,461
Deferred and other tax liabilities		$127,191	(969)	$126,222
Provisions (excluding tax liabilities)		$17,888	10,000	$27,888
Other (includes unearned income)		$2,538		$2,538
Total Non-current Liabilities		$980,044	69,031	$1,049,075
Total Liabilities		$1,514,560	69,031	$1,583,591
Net Assets		$948,718	(92,141)	$856,577
Equity				
Parent entity interest:				
Capital/ contributed equity	- excl convertible notes	$755,351	(93,450)	$661,901
	- convertible notes	$14,866		$14,866
Reserves		($58,987)		($58,987)
Retained profits		$115,347	1,309	$116,656
Equity attributable to members of the parent entity		$826,577	(92,141)	$734,436
Outside equity interests in controlled entities		$122,141		$122,141
Total Equity		$948,718	(92,141)	$856,577

NOTES :

The pro forma assumes a proposed buyback of 43 million ordinary shares with a market price per share of	$2.15
This, together with costs of approx. $1 million results in an expected total cost of	$93,450

The expected total cost will be funded from
1. Use of new Australian cinema debt facility $60m
2. Cash on deposit - $33.45m

The expected post-tax pro rata annual cost of these new borrowings is (annual cost of $4.2 million)	$2,933

The pro forma also includes:

A. Proceeds on sale of Taiwan (assumes consumated)	$26,400
B. Proceeds on sale of Eye Shop	$14,900
C. Provision for Groucho claim (Note 23(a)(xii))	$(10,000)

ANNEX 2

VILLAGE ROADSHOW LIMITED

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18 October 2004

Mr Hans Brockmann
Managing Director
Boswell Filmgesellschaft GmbH
Widenmayerstrasse 4
80538 MUNCHEN
GERMANY

BY FACSIMILE: +49 89 22 12 51

Dear Sir

Boswell's Letter dated 17 October 2004

I refer to your letter dated 17 October 2004 to the Board of Directors of Village Roadshow Limited ('**VRL**') received this morning.

Obviously, the VRL Board can only respond to a takeover proposal when and if it is made. Upon receipt of a valid takeover proposal, the VRL Board will give appropriate consideration to any such proposal. However, Boswell is not entitled to, nor is VRL prepared to provide you with, access to any information that is not in the public domain.

Your letter suggests that you are currently working on an **incomplete proposal** that **may** lead to an offer to acquire all the ordinary shares in VRL (and have apparently been doing so for the past year). However, you have made clear that your letter **does not** constitute notice of intention to make a takeover bid.

In light of this and taking into account the clear endorsement by shareholders of VRL's capital management objectives, the Directors believe that it is in the interests of shareholders to undertake the buy-back(s) implementing these objectives in a timely manner.

VRL has serious doubts about the capacity of Boswell to put forward any meaningful proposal capable of acceptance by VRL shareholders. In particular, we note as follows:

- According to searches undertaken by VRL, Boswell has paid up capital of 55,000 euro and a turnover of 1 euro in the 2002 year. At that time, it had assets of 25,000 euros.
- Boswell has made it clear to VRL and others on many occasions that Boswell is not an associate of any other party in connection with VRL, nor is it acting in concert with any other party with respect to VRL.
- Boswell has a total investment in VRL of 1,000 ordinary and 1,000 preference shares acquired apparently for the sole purpose of opposing VRL's capital management objectives.
- Your letter refers to discussions in respect of *'a significant deal some four years ago'* as some sort of evidence of your financial capacity. As you are aware, Boswell had no involvement in those discussions and you personally had no financial capacity to deliver a concluded transaction. The scale of that proposed transaction was a small fraction of the finance that would be needed to undertake a full takeover of VRL.

- Boswell did not foreshadow its proposal in its recent attempts to prevent the shareholders' consideration of the buy-back resolution passed on 8 October 2004, suggesting to VRL that your letter is simply another attempt to forestall the will of the shareholders in the implementation of VRL's legitimate and publicly announced capital management objectives.

In those circumstances, VRL has nothing before it to suggest that Boswell or you are in any position to undertake a transaction of this scale. Boswell has attempted on a number of occasions to thwart VRL's capital management objectives since 2003 and VRL believes that this is simply one further attempt to do so.

VRL and its Board will continue conducting the affairs of VRL as they consider appropriate in the best interests of all shareholders. In that respect, we note that VRL shareholders have approved the buy-back of further shares in VRL in the implementation of VRL's capital management objectives. Your letter refers to the validity of the buy-back resolution passed on 8 October 2004. There is no question about this. The resolution was passed by a clear majority of shareholders not including VRC and its associates.

Despite VRL's reservations about your financial capacity, VRL would like to give you an opportunity to provide satisfactory evidence of Boswell's financial capacity (including credible binding equity commitments and/or approved credit facilities) to deliver on a transaction of the scale contemplated in your letter. This evidence is requested by no later than 8.00am Melbourne time on 19 October 2004.

In the interests of ensuring that all VRL shareholders are fully informed VRL intends to release your letter, together with this response, to the ASX forthwith. VRL reserves its rights also to release to ASX any evidence that you provide about Boswell's financial capacity in response to this letter.

Yours faithfully

Greg Basser
Director – Commercial & Legal

copy: Minter Ellison
Blake Dawson Waldron

ANNEX 3

Dear Sirs

I refer to the correspondence between Blake Dawson Waldron and Minter Ellison over the past year including the applications to the Takeovers Panel and the court actions culminating most recently in the correspondence about the validity of the buy back resolution. For that entire period Boswell Filmgesellschaft mbH ("Boswell") and I personally have been focussed on how the real value of VRL could be made available to the shareholders generally.

The purpose of this letter is to inform the Village Directors that Boswell, with the above in mind, is urgently working on a proposal to acquire all the ordinary shares in Village (including any ordinary shares arising as a result of the conversion of preference shares) for consideration which we believe will be attractive to many Village shareholders.

It would be a condition of any such proposal that the capital structure of Village would remain unchanged and that Village does not dispose of or enter into any material agreements in relation to the film production, distribution, exhibition or radio divisions. We note that our work to date to develop this proposal has been disrupted by successive buy backs, the reasons for and effect of which have not been adequately explained.

At present it appears probable that there will be other conditions included in the finalised proposal. The number of conditions could be limited and value to shareholders maximised if we and our advisors could have access to the information listed in Appendix A to this letter. We will agree to suitable confidentiality restrictions.

We suggest that we engage in discussions with the independent directors (Mr William Conn, Mr Peter Jonson and Mr Barry Reardon) concerning the process from here and the terms of access to information.

We believe that it is in the best interest of the Village shareholders that they have the opportunity to receive a proposal from Boswell. Accordingly we request that Village do not proceed with the buy back for a period of two weeks, which is a short delay in the context of the period Village has to complete the buy back and must be viewed in the context of a possible offer for all the shares of Village at an attractive price. This would permit the real value of the shares to be made available generally.

In this way the shareholders generally could have a real choice between participation in the current buy back and an attractive alternative for all shareholders in respect of their entire shareholding. Acceptance or rejection by each shareholder in respect of their own shares would speak more loudly than votes on buy backs which by definition most shareholders see as a vote about permitting a minority to sell rather than a vote permitting them to unlock value.

In the interests of progressing matters quickly despite the differences in time zones I would ask that all correspondence is copied to Blake Dawson Waldron (attention Marie McDonald) who has kindly agreed to assist in co-ordinating our contact with you.

Finally, I was very surprised to see suggestions in the press that the net worth of Boswell was quoted at $1. You know very well that we discussed, negotiated and showed proof of funding in respect of a significant deal some four years ago. Then as now I am serious. I would like to ask that this letter and our efforts to complete a proposal be dealt with on that basis.

In this regard Boswell have appointed WestLB AG, London Branch as principal banking advisors, Chiltern plc as corporate, tax, and rights valuation advisors and MRI Moores Rowland as financial advisors and will continue to retain Blake Dawson Waldron as legal advisors.

In light of our request to have discussions with you with a view to limiting conditions, and our request for access to the information indicated in Appendix A, and our ongoing deliberations we must point out that this letter relates to a confidential and incomplete proposal. It does not constitute a notice of intention to make a takeover bid.

Yours truly

Hans Brockmann
Managing Director

cc: Minter Ellison, Blake Dawson Waldron

APPENDIX A

INFORMATION REQUESTED

1. Details in relation to actual and potential tax liability and actual and potential litigation.

2. Plans, negotiations and prospects in relation to the expansion or contraction of each of the Villages divisions.

3. Information the Company may have in respect of the value of Austereo in a potentially more liberal cross media environment.

4. Access to the VRP data room and the information memorandum prepared by Allen & Co.

5. Liquidity/funding constraints in relation to the production division.

6. Supporting documents for the last formal share valuation.

7. Divisional management accounts and financial forecasts.

8. Details in respect of advances and recoupment in respect of film production.

9. Outstanding accounts payable and third party financing.

10. Outstanding productions and the related timeline.

11. Details in respect of the Warner joint venture agreement.

12. A detailed corporate structure.

13. Details in respect of all other (non Warner) joint ventures.

14. Contractual financing and bank debt.

15. Details of any financial obligation that will become payable as a consequence of a change of control.

16. Information provided to Grant Samuel in preparing its report for the buy back schemes.