VILLAGE ROADSHOW LIMITED

ABN 43 010 672 054

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Explanatory memorandum for a proposed buy-back of ordinary shares and preference shares

Important dates

Date	Event
23 October 2009	Buy-Back announced
9 November 2009	Buy-Back period commences
30 November 2009	Buy-Back period concludes

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 23 October 2009.

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VILLAGE ROADSHOW LIMITED

Chairman's letter

23 October 2009

Dear shareholder

On behalf of the Directors of Village Roadshow Limited (“VRL”), I am pleased to invite you to consider participating in an on-market buy-back of some of VRL’s ordinary shares and preference shares (the “Buy-Back”).

VRL intends to buy back up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) and up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue). VRL may buy back less than the maximum amount of shares or no shares at all and shares may be bought back at prices, volumes and times determined by VRL.

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 9 November 2009 and conclude on 30 November 2009. 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.

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

The Buy-Back is consistent with VRL’s capital management objective of creating a more efficient and effective capital structure and maximising value for all VRL shareholders. It also provides shareholders with an opportunity to sell shares in VRL.

The Directors of VRL engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare a report containing an independent valuation of VRL's ordinary shares and preference shares and an independent analysis of the issues you should consider when deciding whether to participate in the Buy-Back. The Grant Samuel report is attached to this explanatory memorandum. You should note that the valuation set out in the Grant Samuel report represents Grant Samuel's assessment of the full underlying value of VRL and is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report. Grant Samuel states that its valuation is appropriate purely in the context of a hypothetical change of control transaction. No such transaction is currently proposed for VRL. Grant Samuel notes that its valuation does not represent an estimate of the possible future trading price of VRL’s ordinary shares or preference shares. In addition, Grant Samuel notes that estimates of VRL's full underlying value have little bearing on shareholders' evaluation of the Buy-Back.

VRL’s major shareholder, Village Roadshow Corporation Pty Ltd (“VRC”), is controlled by John Kirby, Robert Kirby and Graham Burke, each of whom is an Executive Director of VRL (collectively the “Executive Directors”). VRC and the Executive Directors control approximately 61.4% 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 12,690,800 ordinary shares are bought back, VRC and the Executive Directors' relevant interest in VRL's ordinary shares will increase from approximately 61.4% to 68.2%.

Selling your ordinary shares or preference shares on ASX during the Buy-Back period and therefore potentially having those shares bought back 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.

Before you decide whether to sell your shares during the Buy-Back period, you should read this explanatory memorandum (including the Grant Samuel report) and seek professional advice in relation to your particular circumstances.

Yours sincerely

John Kirby
Chairman
Village Roadshow Limited

Key questions

1. What is the Buy-Back?

Under the Buy-Back, VRL proposes to buy up to 10.0% of the total number of ordinary shares on issue and up to 46.1% of the total number of preference shares on issue. VRL may buy 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.

2. When is the Buy-Back period?

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 9 November 2009 and conclude on 30 November 2009. 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.

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

VRL intends to buy back up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) and up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue).

However, 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.

4. 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 ordinary shares and preference shares bought back (refer to question 3) and the price paid to buy back those shares.

The price paid by VRL will depend on the '*market price*' and, 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 ordinary shares and preference 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 ordinary shares and preference shares;
- liquidity of VRL's ordinary shares and preference 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.

For further information on the impact of the Buy-Back on VRL, refer to section 7.

5. What is the impact of the Buy-Back on VRL?

The Buy-Back is expected to have a number of impacts on VRL. In summary, VRL believes it may:

- increase the VRL Group's net debt, gearing and interest expense;
- reduce the number of ordinary shares and preference shares on issue;
- improve VRL's total earnings per share[1];
- further reduce liquidity in the trading of VRL's ordinary shares and preference shares on ASX;
- reduce VRL's representation in the All Ordinaries index; and
- increase the proportionate shareholding of shareholders not participating in the Buy-Back (including VRC).

For further information on the expected impact of the Buy-Back on VRL, refer to section 7.

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.

6. Why is VRL conducting the Buy-Back?

VRL's capital management objective is to create a more efficient and 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 ordinary shares and preference shares. The Directors also believe that the current capital structure inhibits the adoption of a more appropriate dividend policy.

The Directors believe that if all of the preference shares on issue were eliminated it would improve the efficiency of the company's capital structure and enhance the investment appeal of shares in VRL given it could:

- remove a redundant 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 appropriate dividend policy;
- address concerns expressed by shareholders in relation to VRL's dual share class structure; and
- provide shareholders that wish to sell their preference shares with an opportunity to do so, depending on the terms of any proposal.

You should note that there is no certainty that the remaining preference shares on issue will be eliminated or as to the timing or the terms of any such transaction.

Any decision by the Directors to seek to eliminate the remaining preference shares on issue after the Buy-Back would be subject to an assessment of all relevant circumstances including, without limitation, market prices of the preference shares, availability of funding, capital structure, business plans, operating conditions and alternative uses of capital such as acquisitions and developments that may arise in the future.

The Buy-Back of up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue) is consistent with seeking to achieve these objectives over time. The Buy-Back of up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) is also consistent with seeking to achieve VRL's capital management objectives over time and provides the holders of ordinary shares with an opportunity to participate in the Buy-Back.

For further information on VRL's capital management objectives and the rationale for the Buy-Back, refer to sections 2.2 and 2.3.

7. How will VRL fund the Buy-Back?

VRL intends to fund the Buy-Back by increasing its borrowings. VRL has signed a Term Sheet ("VRL Term Sheet") with 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 includes a number of conditions precedent which must be satisfied or waived before the facility can be drawn down for the Buy-Back. The conditions precedent include a condition that Village Cinemas Australia Pty Ltd ("VCA") raises finance under a proposed syndicated loan refinancing (the "VCA Refinancing"). VCA is a wholly owned subsidiary of VRL and holds VRL's Australian cinema exhibition business.

VCA has received a Term Sheet ("VCA Term Sheet") relating to the VCA Refinancing. The VCA Term Sheet also includes a number of conditions precedent which must be satisfied or waived before the VCA Refinancing will occur. These conditions precedent include written consent from Greater Union (VCA's main cinema joint venture partner) and certain other joint venture partners to the security arrangements under the VCA Refinancing.

The terms of the VCA Term Sheet are applicable until 30 October 2009 or such other date as ANZ agrees, by which time the facility agreement for the VCA Refinancing must have been executed. Conditions precedent must be satisfied within 28 days of executing the VCA facility agreement.

VCA has received commitment letters from three banks confirming that they have approved the VCA Term Sheet and have credit approval to provide finance to VCA. Those letters total $100 million of bank commitments.

On completion of the VCA Refinancing, $45 million will be applied to repay existing VCA debt. A further $25 million will be applied to permanently reduce the VRL Facility and the remaining additional funds of approximately $30 million provided by the VCA Refinancing will be available for the Buy-Back.

The limit on the VRL Facility prior to signing the VRL Term Sheet was $270 million. The VRL Term Sheet reduces this to $220 million and following completion of the VCA Refinancing this limit will be reduced to $195 million. The VRL Facility will expire in July 2012, with scheduled amortisation on an annual basis up to that date.

The provision of the facilities under the VRL Term Sheet and VCA Term Sheet are subject to satisfactory documentation, which is currently being negotiated.

VRL expects that the relevant documentation will be finalised and the relevant conditions precedent will be satisfied or waived prior to the start of the Buy-Back period.

For further information on the indicative impact of the Buy-Back on VRL's financial position, net debt, gearing and credit ratios, refer to section 7.4.

8. How does the Buy-Back process work?

The Buy-Back will be conducted on ASX and VRL will purchase ordinary shares and preference shares in the ordinary course of trading, at prices, volumes and times considered appropriate by VRL.

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.

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

9. 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.

10. 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, but, if VRL has bought back shares, your proportional shareholding in VRL will increase.

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

You may participate in the Buy-Back by selling your ordinary shares or preference 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.

12. Will VRC participate in the Buy-Back?

VRC and the Executive Directors control approximately 61.4% 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 12,690,800 ordinary shares are bought back, VRC and the Executive Directors' relevant interest in VRL's ordinary shares will increase from approximately 61.4% to 68.2%.

For further information on the impact of the Buy-Back on VRC and the Executive Directors' voting power, refer to section 6.

13. 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 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 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;
- 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;
- the sale price received is expected to be lower than Grant Samuel's opinion of the value of ordinary shares and preference shares. You should note that the valuation set out in the Grant Samuel report represents Grant Samuel's assessment of the full underlying value of VRL and is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report. Grant Samuel states that its valuation is appropriate purely in the context of a hypothetical change of control transaction. VRL is not aware of any such transaction currently being proposed for VRL. The Buy-Back is not a change of control transaction. Grant Samuel notes that its valuation does not represent an estimate of the possible future trading price of VRL's ordinary shares or preference shares and Grant Samuel expects that VRL shares will trade at a deep discount to its valuation. In addition, Grant Samuel notes that estimates of full underlying value have little bearing on shareholders' evaluation of the Buy-Back. For further information on the Grant Samuel report, refer to section 4 and Appendix A;
- there is 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 1.10, the market price of VRL's shares has fluctuated significantly in recent years;
  - any future dividends paid by VRL (which may increase or decrease from current levels); and

- any offer which may be made for VRL shares in the future. You should note that there is no certainty that the remaining shares on issue will be eliminated or in relation to the timing or the terms of any such transaction;

- you will incur brokerage costs from selling on-market; and
- if you sell your shares before 12 November 2009 you will not receive the fully franked final dividend of $0.06 per ordinary share or $0.09 per preference share in respect of the year ended 30 June 2009.

For further information on the advantages and disadvantages for participating shareholders, refer to section 3.1 and the enclosed Grant Samuel report (refer to Appendix A).

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

- a potential improvement in total earnings per share;
- there is a potential transfer of value to continuing shareholders;
- in the case of the holders of ordinary shares, your voting power in VRL may increase; and
- you will benefit from:
  - any future increase (if any) in the market price of VRL shares. As set out in section 1.10, the market price of VRL's shares has fluctuated significantly in recent years;
  - the fully franked final dividend of $0.06 per ordinary share and $0.09 per preference share in respect of the year ended 30 June 2009 and any future dividends paid by VRL (which may increase or decrease from current levels), provided you hold your shares on the relevant record date; and
  - any offer which may be made for VRL shares in the future. You should note that there is no certainty that the remaining shares on issue will be eliminated or as to the timing or terms of any such transaction.

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;
- the liquidity of VRL shares on ASX is expected to further decrease;
- VRC's voting power is expected to increase;
- VRL is expected to have a reduced representation in the All Ordinaries index; and
- you will remain exposed to the risks associated with being a VRL shareholder.

For further information on the advantages and disadvantages for non-participating shareholders, refer to section 3.2 of this explanatory memorandum and the enclosed Grant Samuel report (refer to Appendix A).

15. What are the conclusions of the Grant Samuel report?

The Grant Samuel report contains an independent valuation of VRL's ordinary shares and preference shares and an independent analysis of the issues shareholders should consider when deciding whether to participate in the Buy-Back. You should note that the valuation set out in the Grant Samuel report represents Grant Samuel's assessment of the full underlying value of VRL and is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Valuation

Grant Samuel's valuation represents a value of $3.69–5.30 for each ordinary share and each preference share. This valuation represents Grant Samuel's assessment of the full underlying value of VRL, that is, the value that could be realised through the sale of 100% of the company in a change of control transaction. It is based on the aggregate of Grant Samuel's assessment of the market value of each of the VRL Group's businesses.

When considering Grant Samuel's valuation, shareholders should note the following statements made by Grant Samuel in its report:

- *"VRL shareholders should understand that the valuation is appropriate purely in the context of a hypothetical change of control transaction. No such transaction is currently proposed for VRL. Moreover, given the controlling shareholding in VRL of VRC, it appears reasonable to conclude that it is highly unlikely that minority shareholders will ever be able to realise the full underlying value of VRL through a change of control transaction."*;
- *"the valuation does not represent an estimate of the price at which VRL ordinary or preference shares might trade in the future."*;
- *"VRL shareholders should understand in considering whether to participate in the Buy-Back that it is almost certain that they will never be able to realise full underlying value for their shares in VRL. Minority holders of ordinary shares and preference shares can only realise full underlying value in circumstances in which a successful takeover offer is made for VRL ordinary shares. Given the controlling shareholding of VRC, shareholders' prospects of realising full underlying value through a takeover offer are remote. It is possible that VRC could seek to privatise VRL at some future time. However, given VRC's existing controlling shareholding and the limited prospects of a competitive offer, there would be no need for any privatisation bid to be made at a price reflecting full underlying value."*;
- *"Grant Samuel's valuation represents an assessment of the full underlying value of VRL. It does not represent an estimate of the possible future trading price of VRL ordinary or preference shares."*;
- *"VRL shares have historically traded at prices substantially lower than Grant Samuel's estimate of the underlying value of VRL"*;

- *"…shareholders should expect that VRL ordinary and preference shares will trade at a deep discount to underlying value."*; and
- *"… estimates of underlying value have little bearing on shareholders' evaluation of the on-market buy-back. Rather, in considering whether to participate in the on-market buy-back, the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the buy-back."*.

Shareholders should also note the following statements made by Grant Samuel in its report:

- *"the valuation assumes that a third party acquirer of VRL could achieve significant savings of head office costs, of the order of $20 million per annum. These savings contribute approximately $0.70-0.80 per share to the valuation. Shareholders should understand that there is no expectation that these savings will be achieved in the context of VRL continuing to trade in its current form"*;
- *"the valuation implicitly assumes the acquisition of VRL by an acquirer that would be able to refinance or otherwise recapitalise the VRL assets. Effectively, the valuation assumes away the financial risk (including refinancing risk) inherent in the current VRL structure. However, this is a real financial risk for VRL shareholders and this risk will be exacerbated by the proposed share buy-back"*;
- *"whilst all of VRL's businesses are broadly in the media and entertainment industries, the reality is that VRL is a conglomerate of disparate businesses. Its Theme Parks and Radio businesses have little in common with each other or with VRL's other businesses. It is likely that there would be different natural buyers for different businesses within VRL. The valuation does not reflect any "conglomerate discount" that might apply, notwithstanding that it may not be possible to find any buyer prepared to pay full underlying value for each of VRL's businesses"*; and
- *"any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value"*.

VRL notes that a sale by the VRL Group of any of its assets could generate a tax liability. The amount of any such liability would depend on the sale price for the asset, the tax cost base of the asset and the quantum of tax losses available to the VRL Group to offset any tax liability. The Grant Samuel valuation does not take into account any such tax liability as it assumes that all of the shares in VRL are acquired by a third party rather than a disposal of assets by VRL.

VRL believes that a sale of the VRL Group's shareholding in Austereo would generate a tax liability. The tax cost base of the VRL Group's shareholding in Austereo is negligible. If the VRL Group sold its entire shareholding in Austereo at the value Grant Samuel attribute to this asset (being $310–350 million), a taxable gain would arise before taking into account tax losses available to the VRL Group to reduce such a liability. If such a sale took place VRL may have tax losses available to it in the relevant year of income and it is noted that at 30 June 2009 VRL had unbooked carry forward capital losses of approximately $83 million and booked revenue losses of approximately $89 million. At the current corporate tax rate of 30%, a taxable gain of $310–350 million would generate a tax liability of approximately $93-105 million (or $0.41–0.47 per VRL share). VRL has no intention of selling its interest in Austereo.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Trading value

Grant Samuel states that shareholders should expect that VRL's ordinary shares and preference shares will trade at a deep discount to full underlying value. Grant Samuel states that factors which are relevant to the amount of that discount include the following:

- *"the 61.4% shareholding of VRC is likely to have a depressing effect on the share price, both in terms of removing any realistic prospect of a fully priced takeover offer for VRL and because investors are commonly cautious about exposure to family controlled companies"*;
- *"VRL has relatively high levels of debt, particularly by comparison with its equity market value (although based on earnings and free cash flow levels the gearing is more reasonable). The valuation of VRL on an underlying value basis essentially assumes that an acquirer would refinance or otherwise deal with the debt and accordingly the debt level has no impact on the judgements as to the value of VRL's businesses. In terms of sharemarket values, however, VRL's gearing is likely to have a significant effect, with the financial risk reflected in a lower market rating. This may be exacerbated after the buy-back to the extent that VRL's gearing increases"*;
- *"given the modest free float in VRL shares, there is limited liquidity in both the ordinary and preference shares. This illiquidity is compounded by the division of VRL's equity base into ordinary and preference shares"*;
- *"the "pyramid" structure of VRL, with its controlling 52.52% shareholding in Austereo, is likely to depress the market values of both Austereo and VRL. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value"*;
- *"there is extremely limited analyst coverage of VRL and limited institutional investment interest"*;
- *"while VRL's overall business interests have been rationalised in recent years, the Film Production and Music division in particular is difficult to understand and its debt facilities are subject to refinancing in 2010*"; and
- *"Grant Samuel's valuation of VRL assumes that an acquirer could achieve substantial savings of head office and listed company costs, of the order of $20 million per annum. However, these costs will continue to be incurred while VRL continues in its current public company form"*.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Evaluation of the Buy-Back

Grant Samuel states that estimates of full underlying value have little bearing on shareholders' evaluation of the Buy-Back. Rather, in considering whether to participate in the Buy-Back, Grant Samuel says the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the Buy-Back. Factors that Grant Samuel says shareholders could consider include:

- *"recent sharemarket trading prices for VRL ordinary and preference shares"*;
- *"dividend expectations"*;
- *"factors likely to continue to depress trading prices for VRL ordinary and preference shares:*
  - *VRC's 61.4% controlling shareholding in VRL;*
  - *the relatively high levels of gearing in VRL;*
  - *VRL's inefficient capital structure, with the equity base divided as between ordinary and preference shares, and the limited liquidity in VRL ordinary and preference shares;*
  - *limited analyst coverage of and institutional interest in VRL;*
  - *the ongoing level of corporate costs that VRL will incur"*;
  - *the "pyramid" structure of VRL with its controlling 52.52% shareholding in Austereo. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value;*
  - *the minimal disclosure of earnings in relation to the Film Production and Music division due to VRL equity accounting its 40.9% interest, and the inherently volatile nature of the division and complexity of the financing arrangements; and*
  - *the risk that the Buy-Back, to the extent successful, will exacerbate some of these factors, including further reducing trading liquidity and increasing gearing";*
- *"upside factors for the VRL share price:*
  - *VRL's relatively stable earnings and strong underlying cash flows, based on strong market positions in the VRL's key businesses;*
  - *VRL's leverage to economic recovery;*
  - *the possibility that VRL's share price will be supported by expectations of further corporate activity, including the prospect of a buy-out offer for minority shareholdings"*; and
- *"the possibility of realising greater value through some future buy-out proposal in the future. VRL has flagged that following the on-market buy-back it would be interested in pursuing the acquisition of the outstanding preference shares, although it has not indicated any timeframe for such a transaction. There is clearly a possibility that at some point in the future VRC will seek to fully privatise VRL (although there can be no certainty as to the timing of any privatisation proposal, or whether it will take place at all). Moreover, to the extent that shares are acquired by VRL under the current (or any future) buy-back at a significant discount to underlying value, there will be an effective transfer of value to the remaining shareholdings"*.

Further, Grant Samuel states that while there is a possibility that shareholders could realise higher prices through not participating in the Buy-Back and selling their shares at some later time, there can be no assurance that such a course of action will ultimately realise greater value:

- *"in the absence of speculation regarding further buy-backs or other corporate activity, VRL shares could again trade at depressed prices, particularly given that such negative factors as illiquidity and gearing will become more pronounced as a result of the current buy-back"*;
- *"there can be no certainty that there will be further buy-back proposals or other proposals to acquire minority shareholdings, or that any such proposals will be at prices higher than those available under the current buy-back (after adjusting for the time value of money)"*; and
- *"VRL is subject to a variety of risks that could affect the future value of its businesses, including technological risks relating to the delivery of film/video content that have the potential to affect the value of its Cinema Exhibition and Film Distribution businesses. These business risks are exacerbated by the financial risks associated with VRL's gearing, capital structure and shareholding structure. Accordingly, VRL's equity value could change, potentially by significant amounts"*.

Grant Samuel states that holders of VRL's ordinary shares and preference shares will need to compare the certainty of realising cash value in the short term, as offered by selling your shares during the Buy-Back Period, with the uncertain prospect of realising superior value in the future. Judgments in this regard will depend on numerous factors including investors' risk tolerance, liquidity requirements, expectations regarding future economic conditions in Australia and overseas, expectations of the future performance of the VRL Group's businesses and other matters. Grant Samuel offers no opinion and makes no recommendation in this regard. You should seek your own professional advice.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

16. Will I receive the 2009 final dividend declared by VRL?

If you sell your shares during the Buy-Back period before 12 November 2009, you will not receive the fully franked final dividend of $0.06 per ordinary share or $0.09 per preference share in respect of the year ended 30 June 2009.

The Buy-Back period is scheduled to conclude on 30 November 2009. However, VRL reserves the right to conclude the Buy-Back period at any time. In addition, VRL has stated a maximum number of shares it intends to buy back and reserves the right to buy back less than that maximum amount or none at all.

17. What are the tax implications for shareholders?

The income tax implications can vary depending on the nature and characteristics of participating shareholders and their specific circumstances. If you decide to sell during the Buy-Back period, your particular tax treatment will depend on your own 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 8.

18. What else should I consider?

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

The Directors of VRL have engaged Grant Samuel to prepare a report containing an independent valuation of VRL's ordinary shares and preference shares and an independent analysis of the issues you should consider when deciding whether to sell during the Buy-Back period. The Grant Samuel report is set out in Appendix A and shareholders should read the entire report. You should note that the valuation set out in the Grant Samuel report represents Grant Samuel's assessment of the full underlying value of VRL and is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report. Grant Samuel states that its valuation is appropriate purely in the context of a hypothetical change of control transaction. VRL is not aware of any such transaction currently being proposed for VRL. The Buy-Back is not a change of control transaction. Grant Samuel notes that its valuation does not represent an estimate of the possible future trading price of VRL's ordinary shares or preference shares. In addition, Grant Samuel notes that estimates of full underlying value have little bearing on shareholders' evaluation of the Buy-Back.

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

The VRL Group first commenced business in 1954 in Melbourne, Australia and VRL has been listed on the Australian Securities Exchange since 1988. Based in Melbourne, the VRL Group is a leading international entertainment and media company with core businesses in Theme Parks, 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 Warner Roadshow Studios.

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, Koala Gallery on Hamilton Island, Queensland.

The VRL Group's overseas theme parks and attractions include:

- Kelly Tarlton's Antarctic Encounter and Underwater World in Auckland, New Zealand;
- Wet 'n' Wild Water World in Kapolei, Hawaii, USA; and
- Wet 'n' Wild Water World in Phoenix, Arizona, USA.

1.3 Film Distribution

Originally started by the VRL Group 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.

1.4 Cinema Exhibition

Showing movies has a long tradition within the VRL Group, having started in 1954 with drive–in cinemas. Today Village Cinemas jointly owns and operates 514 cinema screens across 51 sites in Australia and has 73 cinema screens at 9 sites in Singapore and 15 cinema screens at 2 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).

1.5 Radio

The VRL Group started Australia's first FM radio station, 2Day FM, in 1979. Now, through a majority shareholding of 52.52% in ASX listed Austereo, 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 4.5 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: Nielsen Media Research – survey 6, 2009

**Source: Nielsen NetRatings

1.6 Film Production and Music

The VRL Group has been involved in film production since the 1960's. Currently VRL has a 40.9% interest in Village Roadshow Entertainment Group ("VREG") which owns:

- Hollywood movie producer, Village Roadshow Pictures ("VRP"). Since its inception in 1998, VRP has produced 62 films with global box office takings of approximately US$9.3 billion, including blockbuster hits such as *The Matrix* trilogy, the *Ocean's* trilogy, *Charlie and the Chocolate Factory*, *Happy Feet*, *I Am Legend, Get Smart*, and, most recently, *Gran Torino*; 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*.

1.7 VRL's 2009 results

On 27 August 2009, VRL announced an attributable operating profit after tax before material items and discontinued operations for the year ended 30 June 2009 of $58.5 million, compared to $51.9 million for the prior year.

EBITDA from operations grew 4.2% to $247.4 million compared to $237.4 million for the prior year.

The key points from the 2009 results were:

- improved trading in Theme Parks, Australian Cinema Exhibition and Film Distribution, slightly offset by a decline in trading in Radio;
- successful launch of Phoenix Wet 'n' Wild;
- the conditional sale (regulatory and other approvals pending) of Greece operations which will generate approximately $80 million of cash proceeds;
- an interim dividend of 3.75 cents per share fully franked, paid in July 2009;
- a final dividend of 6 cents per ordinary share and 9 cents per preference share fully franked, which is expected to be paid in December 2009;
- a disappointing result from Gold Class USA compared to a positive impact from other Exhibition territories; and
- the impairment of the carrying value of assets including goodwill relating to acquisition of Sydney Attractions Group.

For further information on VRL's 2009 results, refer to VRL's statutory accounts which were provided to ASX on 14 September 2009.

1.8 Recent ASX announcements

On 10 August 2009, VRL announced that it had been approached by VRC and informed that VRC was working on a proposal for the potential privatisation of VRL. VRC informed VRL that its work on the privatisation proposal was substantially incomplete and a number of key issues were yet to be finalised, including terms of any proposal and funding for any proposal.

On 24 August 2009, VRL announced that it had been informed by VRC that VRC was no longer working on a proposal for the potential privatisation of VRL. VRC told VRL that it did not intend to make a privatisation proposal for various reasons including its inability to arrange finance on terms acceptable to VRC.

VRL also announced on 24 August 2009 that it would consider alternative capital management strategies in due course and this was referred to again in VRL's 2009 results announcement of 27 August 2009 and statutory accounts dated 14 September 2009.

On 23 September 2009, VRL announced that Directors had resolved not to exercise VRL's option to acquire the land and business of Aussie World on the Sunshine Coast in Queensland. After extensive research, review and planning, VRL considers that when compared with other opportunities available, the potential returns do not justify the level of investment for the world class water park which would be required to deliver a significant destination site. There will be no material impact on VRL's financial position or results.

On 30 September 2009, VRL announced that discussions in relation to assigning to a third party its US$45 million loan to VREG had ceased. VREG plans to extend the film financing facility which its VRP division currently has in place and is considering a number of strategic initiatives, including potential new partners. As part of the extension VREG is likely to seek additional funding, including from existing shareholders. VREG is aiming to conclude the finance extension during the first quarter of 2010. Funding of future films is dependent on the successful re-negotiation of the film finance facility, currently expiring in September 2010. VRP is confident a

longer term film finance facility will be negotiated which will allow for the financing of the current line-up of films in development.

VRL expects to commit in the long term its total combined investment (including its 40.9% equity interest and US$45 million loan) in VREG in an appropriate form going forward, in order to facilitate the VRP refinancing. The VRL Board will consider any actual funding proposal at the appropriate time.

On 5 October 2009, VRL announced it had completed the sale of its Greece operations to a private European investor. The net cash from the sale was approximately $80 million and the profit after tax arising from the sale was approximately $20 million.

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

1.9 Further material developments and update on matters in progress

The VRL Group continues to seek to expand its water park business, both in Australia and the United States. VRL is exploring a number of opportunities in relation to both new and existing water parks. VRL is negotiating to develop a potential new water park in Florida, USA and is investigating several other water park opportunities in the USA. In Australia, while VRL is no longer pursuing a water park on the Sunshine Coast, it is seeking to develop a potential new water park to complement its existing Wet 'n' Wild on the Gold Coast. The development or acquisition of any of these water parks is not assured and is dependent upon a number of conditions, including finance.

1.10 Share price information

(a) Ordinary shares

As at the date of this explanatory memorandum, VRL has 126,908,449 ordinary shares on issue.

The trading price and volumes of ordinary shares traded in recent months may have been impacted by VRL's announcements of 10 August 2009 and 24 August 2009 regarding the approach from VRC in relation to a potential privatisation of VRL and VRL's consideration of alternative capital management strategies as set out in section 1.8.

Figure 1 sets out recent trading information for VRL ordinary shares prior to the announcement of the Buy-Back and prior to the announcement of the approach from VRC in relation to a potential privatisation of VRL.

Figure 1 Ordinary shares trading information

	Pre Buy-Back announcement	Pre privatisation announcement
	Period ending 21 October 2009[1]	Period ending 7 August 2009[2]
Closing price	$1.50	$1.19
5 day VWAP	$1.51	$1.19
10 day VWAP	$1.50	$1.09
20 day VWAP	$1.54	$1.03
60 day VWAP	$1.35	$1.00

Notes:

1 Represents the trading day two days prior to the announcement of the Buy-Back

2 Represents the last trading day prior to the announcement of the approach from VRC in relation to a potential privatisation of VRL

For the six months prior to the announcement of the Buy-Back, the average daily trading volume of VRL ordinary shares was 53,119, representing a turnover of approximately 0.04% of the VRL ordinary shares listed on ASX.

Figure 2 sets out the daily share volume traded and closing share price of VRL ordinary shares between 1 September 2007 and 21 October 2009.

Figure 2 VRL ordinary shares—share price and volume

Source: IRESS

(b) Preference shares

As at the date of this explanatory memorandum, VRL has 97,655,451 preference shares on issue. The terms of issue of the preference shares are set out in VRL's constitution and the original prospectus for the issue of the preference shares.

The trading price and volumes of preference shares traded in recent months may have been impacted by VRL's announcements of 10 August 2009 and 24 August 2009 regarding the approach from VRC in relation to a potential privatisation of VRL and VRL's consideration of alternative capital management strategies as set out in section 1.8.

Figure 3 sets out recent trading information for VRL preference shares prior to the announcement of the Buy-Back and prior to the announcement of the approach from VRC in relation to a potential privatisation of VRL.

Figure 3 Preference shares trading information

	Pre Buy-Back announcement	Pre privatisation announcement
	Period ending 21 October 2009[1]	Period ending 7 August 2009[2]
Closing price	$1.445	$0.77
5 day VWAP	$1.42	$0.75
10 day VWAP	$1.41	$0.66
20 day VWAP	$1.41	$0.63
60 day VWAP	$1.11	$0.63

Notes:

1 Represents the trading day two days prior to the announcement of the Buy-Back

2 Represents the last trading day prior to the announcement of the approach from VRC in relation to a potential privatisation of VRL

For the six months prior to the announcement of the Buy-Back, the average daily trading volume of VRL preference shares was 261,199, representing a turnover of approximately 0.27% of the VRL preference shares listed on ASX.

Figure 4 sets out the daily share volume traded and closing share price of VRL preference shares between 1 September 2007 and 21 October 2009.

Figure 4 VRL preference shares—share price and volume

Source: IRESS

1.11 Top 10 shareholders and Directors' interests

As at 18 September 2009 the 10 largest shareholders in VRL were as follows:

Ordinary shares

Name of holder	Shares	%	Rank
Village Roadshow Corporation Pty Limited	74,517,432	58.72	1
Credit Suisse Securities (Europe) Ltd <Collateral A/C>	7,600,000	5.99	2
Brispot Nominees Pty Ltd <House Head Nominee No 1A/C>	6,081,053	4.79	3
National Nominees Limited	4,616,579	3.64	4
J P Morgan Nominees Australia Limited	4,561,574	3.59	5
Pan Australian Nominees Pty Limited	4,173,114	3.29	6
Citicorp Nominees Pty Limited	2,872,136	2.26	7
Feta Nominees Pty Limited	1,616,600	1.27	8
Mr Graham William Burke	1,341,920	1.06	9
Mr Peter Edwin Foo	1,000,000	0.79	10

Preference shares

Name of holder	Shares	%	Rank
HSBC Custody Nominees (Australia) Limited	17,565,164	17.99	1
Citicorp Nominees Pty Limited	15,592,964	15.97	2
National Nominees Limited	10,261,687	10.51	3
UBS Nominees Pty Ltd	4,488,073	4.60	4
ANZ Nominees Limited <Cash Income A/C>	4,091,514	4.19	5
UBS Nominees Pty Ltd <Pb Seg A/C>	3,891,848	3.99	6
J P Morgan Nominees Australia Limited	3,292,685	3.37	7
Ravenscourt Pty Ltd	3,125,502	3.20	8
Australian United Investment Company Limited	2,000,000	2.05	9
Beta Gamma Pty Ltd <Walsh Street Superfund A/C>	1,900,000	1.95	10

As at 18 September 2009 the substantial shareholders in VRL were as follows:

Ordinary shares

Name of holder	Shares	%	Rank
Village Roadshow Corporation Pty Limited	77,859,352	61.35	1
UBS Nominees Limited	10,188,802	6.06*	2
Credit Suisse Holdings (Australia) Limited	7,083,726	5.58	3

*Based on most recent substantial shareholding notice lodged on 23 December 2005.

As at 18 September 2009 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:

	VRL			Austereo
Name of Director	Ordinary shares	Preference shares	Ordinary options	Ordinary shares
John R. Kirby	77,859,352	–	–	181,093,856
Robert G. 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	–	–	–	–

2. About the Buy-Back

2.1 Details of the Buy-Back

VRL intends to buy back up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) and up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue).

VRL intends to conduct the Buy-Back over a three week period, which is expected to commence on 9 November 2009 and conclude on 30 November 2009. 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 ordinary shares and preference shares;
- liquidity of VRL's ordinary shares and preference 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.

Trading in ordinary shares and preference 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 to buy back less than the maximum amount of shares or not to buy back any shares at all for any reason. If less than the maximum amount is bought back, VRL has the flexibility to determine the proportion of ordinary shares and preference shares which are bought back.

2.2 VRL's capital management objectives

VRL's capital management objective is to create a more efficient and 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 ordinary shares and preference shares. The Directors also believe that the current capital structure inhibits the adoption of a more appropriate dividend policy.

The Directors believe that if all of the preference shares on issue were eliminated it would improve the efficiency of the company's capital structure and enhance the investment appeal of shares in VRL given it could:

- remove a redundant 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 appropriate dividend policy;
- address concerns expressed by shareholders in relation to VRL's dual share class structure; and
- provide shareholders that wish to sell their preference shares with an opportunity to do so, depending on the terms of any proposal.

Shareholders should note that there is no certainty that the remaining preference shares on issue will be eliminated or in relation to the timing or the terms of any such transaction.

Any decision by the Directors to seek to eliminate the remaining preference shares on issue after the Buy-Back would be subject to an assessment of all relevant circumstances including, without limitation, market prices of the preference shares, availability of funding, capital structure,

business plans, operating conditions and alternative uses of capital such as acquisitions and developments that may arise in the future.

The Buy-Back of up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue) is consistent with seeking to achieve these objectives over time. The Buy-Back of up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) is also consistent with seeking to achieve VRL's capital management objectives over time and provides the holders of ordinary shares with an opportunity to participate in the Buy-Back.

2.3 Rationale for the Buy-Back

(a) 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 ordinary shares and preference 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 the Buy-Back at this time. However, VRL will continue to assess acquisition opportunities as they arise, including during the Buy-Back period. The Directors consider that the Buy-Back would provide attractive returns to VRL and enhance earnings per share (refer to section 7.3).

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.

On 5 October 2009, VRL announced that it had received net proceeds of approximately $80 million from the sale of the VRL Group's Greece operations, which substantially account for funds required to complete the Buy-Back. Section 7.4 illustrates that the indicative impact, when taking both the Buy-Back and the sale of the VRL Group's Greece and Czech Republic operations into account (under the assumptions set out in section 7.2(c)), on VRL's credit ratios as at 30 June 2009 is minimal.

(b) Directors' consideration of other methods of returning capital

The Directors considered a number of other ways to return capital to shareholders (including capital reductions and special dividends) and concluded that 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.

In addition, the Directors believe the proposed Buy-Back compares favourably with alternative uses of capital as the Buy-Back can be implemented quickly. Implementation of the Buy-Back is simpler compared with other capital return mechanisms such as off-market buy-backs and pro-rata capital returns.

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.

2.4 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 ordinary shares and preference 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.

2.5 Timetable

The timetable for the Buy-Back is as follows:

Date	Event
23 October 2009	Buy-Back announced
9 November 2009	Buy-Back period commences
30 November 2009	Buy-Back period concludes

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.

2.6 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 (refer to section 2.1). 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.

3. Advantages and disadvantages of the Buy-Back

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

(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 ordinary shares and preference shares have had a low volume of shares traded in recent years (refer to section 1.10). 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 1.10, 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.

(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 ordinary shares and preference shares have traded historically (refer to section 1.10). The trading price and volumes of ordinary shares and preference shares traded in recent months may have been impacted by VRL's announcements of 10 August 2009 and 24 August 2009 regarding the approach from VRC in relation to a potential privatisation of VRL and VRL's consideration of alternative capital management strategies as set out in section 1.8.

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 ordinary shares or preference 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 ordinary shares and preference shares have traded historically (refer to section 1.10). The trading price and volumes of ordinary shares and preference shares traded in recent months may have been impacted by VRL's announcements of 10 August 2009 and 24 August 2009 regarding the approach from VRC in relation to a potential privatisation of VRL and VRL's consideration of alternative capital management strategies as set out in section 1.8.

(iii) Sale price received is expected to be lower than Grant Samuel's valuation range

The sale price received is expected to be lower than Grant Samuel's opinion of the value of ordinary shares and preference shares. Shareholders should note that the valuation set out in the Grant Samuel report represents Grant Samuel's assessment of the full underlying value of VRL and is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report. Grant Samuel states that its valuation is appropriate purely in the context of a hypothetical change of control transaction. VRL is not aware of any such transaction currently being proposed for VRL. The Buy-Back is not a change of

control transaction. Grant Samuel notes that its valuation does not represent an estimate of the possible future trading price of VRL's ordinary shares or preference shares. In addition, Grant Samuel notes that estimates of full underlying value have little bearing on shareholders' evaluation of the Buy-Back.

For further information on the Grant Samuel report, refer to section 4 and Appendix A.

(iv) 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.

(v) 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 1.10, the market price of VRL's shares has fluctuated significantly in recent years;
- any future dividends paid by VRL (which may increase or decrease from current levels); and
- any offer which may be made for VRL shares in the future. Shareholders should note that there is no certainty that the remaining shares on issue will be eliminated or in relation to the timing or the terms of any such transaction.

(vi) Brokerage costs

Shareholders who sell on-market will incur brokerage costs.

(vii) No 2009 final dividend

Shareholders who sell their shares before 12 November 2009 will not receive the fully franked final dividend of $0.06 per ordinary share and $0.09 per preference share in respect of the year ended 30 June 2009.

3.2 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 7.3.

(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 voting power

To the extent a shareholder chooses not to sell, the 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.

(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 1.10, the market price of VRL's shares has fluctuated significantly in recent years;
- the fully franked final dividend of $0.06 per ordinary share and $0.09 per preference share in respect of the year ended 30 June 2009 and any future dividends paid by VRL (which may increase or decrease from current levels), provided shareholders hold their shares on the relevant record date; and
- any offer which may be made for VRL shares in the future. Shareholders should note that there is no certainty that the remaining shares on issue will be eliminated or as to the timing or terms of any such transaction.

(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 ordinary shares and preference 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.

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 7.4.

(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. For further information on the volume of ordinary shares and preference shares historically traded, refer to section 1.10.

(iii) Increase in VRC's voting power

VRC and the Executive Directors control approximately 61.4% 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, the voting power of VRC and the Executive Directors will increase. 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 6.

(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 and preference shares each currently represent approximately 0.01% of the All Ordinaries index respectively. 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.

(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 1.10, 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.

4. The Grant Samuel report

The Directors of VRL engaged Grant Samuel to prepare a report containing an independent valuation of VRL's ordinary shares and preference shares and an independent analysis of the issues shareholders should consider when deciding whether to participate in the Buy-Back. The Grant Samuel report is based on a valuation methodology specified by Grant Samuel. The VRL Board has not endorsed the valuation set out in the Grant Samuel report.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Valuation

Grant Samuel's valuation represents a value of $3.69–5.30 for each ordinary share and each preference share. This valuation represents Grant Samuel's assessment of the full underlying value of VRL, that is, the value that could be realised through the sale of 100% of the company in a change of control transaction. It is based on the aggregate of Grant Samuel's assessment of the market value of each of the VRL group's businesses.

When considering Grant Samuel's valuation, shareholders should note the following statements made by Grant Samuel in its report:

- *"VRL shareholders should understand that the valuation is appropriate purely in the context of a hypothetical change of control transaction. No such transaction is currently proposed for VRL. Moreover, given the controlling shareholding in VRL of VRC, it appears reasonable to conclude that it is highly unlikely that minority shareholders will ever be able to realise the full underlying value of VRL through a change of control transaction"*;
- *"the valuation does not represent an estimate of the price at which VRL ordinary and preference shares might trade in the future"*;
- *"VRL shareholders should understand in considering whether to participate in the Buy-Back that that it is almost certain that they will never be able to realise full underlying value for their shares in VRL. Minority holders of ordinary shares and preference shares can only realise full underlying value in circumstances in which a successful takeover offer is*

made for VRL ordinary shares. Given the controlling shareholding of VRC, shareholders' prospects of realising full underlying value through a takeover offer are remote. It is possible that VRC could seek to privatise VRL at some future time. However, given VRC's existing controlling shareholding and the limited prospects of a competitive offer, there would be no need for any privatisation bid to be made at a price reflecting full underlying value";

- *"Grant Samuel's valuation represents an assessment of the full underlying value of VRL. It does not represent an estimate of the possible future trading price of VRL's ordinary shares or preference shares"*;
- *"VRL shares have historically traded at prices substantially lower than Grant Samuel's estimate of the underlying value of VRL"*;
- "*… shareholders should expect that VRL ordinary and preference shares will trade at a deep discount to underlying value"*; and
- *"… estimates of underlying value have little bearing on shareholders' evaluation of the on-market buy-back. Rather, in considering whether to participate in the on-market buy-back, the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the buy-back."*.

Shareholders should also note the following statements made by Grant Samuel in its report:

- *"the valuation assumes that a third party acquirer of VRL could achieve significant savings of head office costs, of the order of $20 million per annum. These savings contribute approximately $0.70-0.80 per share to the valuation. Shareholders should understand that there is no expectation that these savings will be achieved in the context of VRL continuing to trade in its current form"*;
- *"the valuation implicitly assumes the acquisition of VRL by an acquirer that would be able to refinance or otherwise recapitalise the VRL assets. Effectively, the valuation assumes away the financial risk (including refinancing risk) inherent in the current VRL structure. However, this is a real financial risk for VRL shareholders and this risk will be exacerbated by the proposed share buy-back"*;
- *"whilst all of VRL's businesses are broadly in the media and entertainment industries, the reality is that VRL is a conglomerate of disparate businesses. Its Theme Parks and Radio businesses have little in common with each other or with VRL's other businesses. It is likely that there would be different natural buyers for different businesses within VRL. The valuation does not reflect any "conglomerate discount" that might apply, notwithstanding that it may not be possible to find any buyer prepared to pay full underlying value for each of VRL's businesses"*; and
- *"any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value"*.

VRL notes that a sale by the VRL Group of any of its assets could generate a tax liability. The amount of any such liability would depend on the sale price for the asset, the tax cost base of the asset and the quantum of tax losses available to the VRL Group to offset any tax liability. The Grant Samuel valuation does not take into account any such tax liability as it assumes that all of the shares in VRL are acquired by a third party rather than a disposal of assets by VRL.

VRL believes that a sale of the VRL Group's shareholding in Austereo would generate a tax liability. The tax cost base of the VRL Group's shareholding in Austereo is negligible. If the VRL Group sold its entire shareholding in Austereo at the value Grant Samuel attribute to this asset (being $310–350 million), a taxable gain would arise before taking into account tax losses available to the VRL Group to reduce such a liability. If such a sale took place VRL may have tax losses available to it in the relevant year of income and it is noted that at 30 June 2009 VRL had unbooked carry forward capital losses of approximately $83 million and booked revenue losses of approximately $89 million. At the current corporate tax rate of 30%, a taxable gain of $310–350 million would generate a tax liability of approximately $93-105 million (or $0.41–0.47 per VRL share). VRL has no intention of selling its interest in Austereo.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Trading value

Grant Samuel states that shareholders should expect that VRL's ordinary shares and preference shares will trade at a deep discount to full underlying value. Grant Samuel states that factors which are relevant to the amount of that discount include the following:

- *"the 61.4% shareholding of VRC is likely to have a depressing effect on the share price, both in terms of removing any realistic prospect of a fully priced takeover offer for VRL and because investors are commonly cautious about exposure to family controlled companies"*;
- *"VRL has relatively high levels of debt, particularly by comparison with its equity market value (although based on earnings and free cash flow levels the gearing is more reasonable). The valuation of VRL on an underlying value basis essentially assumes that an acquirer would refinance or otherwise deal with the debt and accordingly the debt level has no impact on the judgements as to the value of VRL's businesses. In terms of sharemarket values, however, VRL's gearing is likely to have a significant effect, with the financial risk reflected in a lower market rating. This may be exacerbated after the buy-back to the extent that VRL's gearing increases"*;
- *"given the modest free float in VRL shares, there is limited liquidity in both the ordinary and preference shares. This illiquidity is compounded by the division of VRL's equity base into ordinary and preference shares"*;
- *"the "pyramid" structure of VRL, with its controlling 52.52% shareholding in Austereo, is likely to depress the market values of both Austereo and VRL. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value"*;
- *"there is extremely limited analyst coverage of VRL and limited institutional investment interest"*;
- *"while VRL's overall business interests have been rationalised in recent years, the Film Production and Music division in particular is difficult to understand and its debt facilities are subject to refinancing in 2010"*; and
- *"Grant Samuel's valuation assumes that an acquirer could achieve substantial savings of head office and listed company costs, of the order of $20 million per annum. However, these costs will continue to be incurred while VRL continues in its current public company form"*.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

Evaluation of the Buy-Back

Grant Samuel states that estimates of full underlying value have little bearing on shareholders' evaluation of the Buy-Back. Rather, in considering whether to participate in the Buy-Back, Grant Samuel says the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the Buy-Back. Factors that Grant Samuel says shareholders could consider include:

- *"recent sharemarket trading prices for VRL ordinary and preference shares"*;
- *"dividend expectations"*;
- *"factors likely to continue to depress trading prices for VRL ordinary and preference shares:*
  - *VRC's 61.4% controlling shareholding in VRL;*
  - *the relatively high levels of gearing in VRL;*
  - *VRL's inefficient capital structure, with the equity base divided as between ordinary and preference shares, and the limited liquidity in VRL ordinary and preference shares;*
  - *limited analyst coverage of and institutional interest in VRL;*
  - *the ongoing level of corporate costs that VRL will incur"*;
  - *the "pyramid" structure of VRL with its controlling 52.52% shareholding in Austereo. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value;*
  - *the minimal disclosure of earnings in relation to the Film Production and Music division due to VRL equity accounting its 40.9% interest, and the inherently volatile nature of the division and complexity of the financing arrangements; and*
  - *the risk that the Buy-Back, to the extent successful, will exacerbate some of these factors, including further reducing trading liquidity and increasing gearing";*
- *"upside factors for the VRL share price:*
  - *VRL's relatively stable earnings and strong underlying cash flows, based on strong market positions in the VRL's key businesses;*
  - *VRL's leverage to economic recovery;*
  - *the possibility that VRL's share price will be supported by expectations of further corporate activity, including the prospect of a buy-out offer for minority shareholdings"*; and
- *"the possibility of realising greater value through some future buy-out proposal in the future. VRL has flagged that following the on-market buy-back it would be interested in pursuing the acquisition of the outstanding preference shares, although it has not indicated any timeframe for such a transaction. There is clearly a possibility that at some point in the future VRC will seek to fully privatise VRL (although there can be no certainty*

as to the timing of any privatisation proposal, or whether it will take place at all). Moreover, to the extent that shares are acquired by VRL under the current (or any future) buy-back at a significant discount to underlying value, there will be an effective transfer of value to the remaining shareholdings".

Further, Grant Samuel states that, while there is a possibility that shareholders could realise higher prices through not participating in the Buy-Back and selling their shares at some later time, there can be no assurance that such a course of action will ultimately realise greater value:

- *"in the absence of speculation regarding further buy-backs or other corporate activity, VRL shares could again trade at depressed prices, particularly given that such negative factors as illiquidity and gearing will become more pronounced as a result of the current buy-back"*;
- *"there can be no certainty that there will be further buy-back proposals or other proposals to acquire minority shareholdings, or that any such proposals will be at prices higher than those available under the current buy-back (after adjusting for the time value of money)"*; and
- *"VRL is subject to a variety of risks that could affect the future value of its businesses, including technological risks relating to the delivery of film/video content that have the potential to affect the value of its Cinema Exhibition and Film Distribution businesses. These business risks are exacerbated by the financial risks associated with VRL's gearing, capital structure and shareholding structure. Accordingly, VRL's equity value could change, potentially by significant amounts"*.

Grant Samuel states that holders of VRL's ordinary shares and preference shares will need to compare the certainty of realising cash value in the short term, as offered by selling shares during the Buy-Back Period, with the uncertain prospect of realising superior value in the future. Judgments in this regard will depend on numerous factors including investors' risk tolerance, liquidity requirements, expectations regarding future economic conditions in Australia and overseas, expectations of the future performance of the VRL group's businesses and other matters. Grant Samuel offers no opinion and makes no recommendation in this regard. You should seek your own professional advice.

The Grant Samuel report is set out in Appendix A and shareholders should read the entire report.

5. Funding for the Buy-Back

VRL intends to fund the Buy-Back by increasing its borrowings. VRL has signed a Term Sheet ("VRL Term Sheet") with 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 includes a number of conditions precedent which must be satisfied or waived before the facility can be drawn down for the Buy-Back. The conditions precedent include a condition that Village Cinemas Australia Pty Ltd ("VCA") raises finance under a proposed syndicated loan refinancing (the "VCA Refinancing"). VCA is a wholly owned subsidiary of VRL and holds VRL's Australian cinema exhibition business.

VCA has received a Term Sheet ("VCA Term Sheet") relating to the VCA Refinancing. The VCA Term Sheet also includes a number of conditions precedent which must be satisfied or waived before the VCA Refinancing will occur. These conditions precedent include written consent from

Greater Union (VCA's main cinema joint venture partner) and certain other joint venture partners to the security arrangements under the VCA Refinancing.

The terms of the VCA Term Sheet are applicable until 30 October 2009 or such other date as ANZ agrees, by which time the facility agreement for the VCA Refinancing must have been executed. Conditions precedent must be satisfied within 28 days of executing the VCA facility agreement.

VCA has received commitment letters from three banks confirming that they have approved the VCA Term Sheet and have credit approval to provide finance to VCA. Those letters total $100 million of bank commitments.

On completion of the VCA Refinancing, $45 million will be applied to repay existing VCA debt. A further $25 million will be applied to permanently reduce the VRL Facility and the remaining additional funds of approximately $30 million provided by the VCA Refinancing will be available for the Buy-Back.

The limit on the VRL Facility prior to signing the VRL Term Sheet was $270 million. The VRL Term Sheet reduces this to $220 million and, following completion of the VCA Refinancing this limit will be reduced to $195 million. The VRL Facility will expire in July 2012, with scheduled amortisation on an annual basis up to that date.

The provision of the facilities under the VRL Term Sheet and VCA Term Sheet are subject to satisfactory documentation, which is currently being negotiated.

VRL expects that the relevant documentation will be finalised and the relevant conditions precedent will be satisfied or waived prior to the start of the Buy-Back period.

For further information on the indicative impact of the Buy-Back on VRL's financial position, net debt, gearing and credit ratios, refer to section 7.4.

6. Participation of VRC in the Buy-Back

VRC and the Executive Directors have a relevant interest in approximately 61.4% 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.

Figure 5 sets out VRC and the Executive Directors' voting power at various volumes of ordinary shares being bought back, for illustrative purposes only.

Figure 5 Indicative impact of the Buy-Back on VRC and the Executive Directors' voting power

Ordinary shares bought back		
Number	**% of ordinary shares on issue**	**Voting power**
0	0.0%	61.4%
3,172,700	2.5%	62.9%
6,345,400	5.0%	64.6%
9,518,100	7.5%	66.3%
12,690,800	10.0%	68.2%

7. Indicative impact of the Buy-Back on VRL

7.1 Introduction

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

- reduce the number of ordinary shares and preference shares on issue;
- increase the VRL Group's net debt, gearing and interest expense;
- improve VRL's total earnings per share;
- further reduce liquidity in the trading of VRL's ordinary shares and preference shares on ASX;
- reduce VRL's representation in the All Ordinaries index; and
- increase the proportionate shareholding of shareholders not participating in the Buy-Back (including VRC).

Refer to sections 3.1 and 3.2 for further information on the potential advantages and disadvantages of the Buy-Back for exiting and continuing shareholders.

This section sets out details of the indicative impact of the Buy-Back on VRL.

7.2 Financial information

On 27 August 2009, VRL announced its 2009 results by providing its Appendix 4E to the ASX. On 14 September 2009, VRL provided its statutory accounts to the ASX. For further information on VRL's 2009 results, refer to section 1.7.

(a) Pro-forma information prepared

For the purpose of illustrating the indicative financial impact of the Buy-Back 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 2009; and
- an abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2009.

The abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2009 assumes that VRL had received net proceeds from the sale of the VRL Group's Greece and Czech Republic operations and that VRL had bought back ordinary shares and preference shares under the Buy-Back as at 30 June 2009. The abridged pro-forma consolidated income statement of the VRL Group for the year ended 30 June 2009, assumes that VRL had received net proceeds from the sale of the VRL Group's Greece and Czech Republic operations and VRL had bought back ordinary shares and preference shares under the Buy-Back as at 1 July 2008.

Further details of the applicable assumptions are contained in this section 7.

As announced to ASX on 5 October 2009, the net proceeds from the sale of the VRL Group's Greece operations (approximately $80 million) have been received.

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 7 do not purport to reflect the reported earnings or balances of VRL for the year ended 30 June 2009 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 2009. The pro-forma financial information has been provided by VRL to illustrate the indicative impact of the Buy-Back under certain assumptions. Any variation to this indicative impact of the Buy-Back 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 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 Buy-Back on VRL's earnings per share, net debt, gearing and credit ratios is unable to be determined until the Buy-Back 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 Buy-Back of ordinary shares and preference shares, as set out in this section, has been assumed to be completed on the following basis:

- 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) are bought back and cancelled under the Buy-Back at an average price of $1.50[1] per share and the total amount spent buying back shares is approximately $19,036,200;
- 45 million preference shares (representing 46.1% of the total number of preference shares on issue) are bought back and cancelled under the Buy-Back at an average price of $1.445[2] per share and the total amount spent buying back shares is approximately $65,025,000; and

- $84.6 million of net proceeds are received by VRL from the settlement of the sale of the VRL Group's Greece and Czech Republic operations.

In aggregate, this represents 57,690,800 shares bought back and cancelled under the Buy-Back for approximately $84,061,200. Estimated transaction and advisory costs of $5 million have also been used in the pro-forma calculations.

Notes:

1 Represents the closing price of VRL ordinary shares on 21 October 2009, two days prior to the announcement of the Buy-Back

2 Represents the closing price of VRL preference shares on 21 October 2009, two days prior to the announcement of the Buy-Back

For the purpose of preparing a pro-forma consolidated income statement for the year ended 30 June 2009, the above transactions are assumed to occur on 1 July 2008 and for the purpose of preparing a pro-forma consolidated balance sheet as at 30 June 2009, the above transactions are assumed to occur as at 30 June 2009.

The average prices and volumes used in this section 7 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 Buy-Back as a guide to assist VRL shareholders in considering 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 7.

VRL shareholders should carefully consider this explanatory memorandum when assessing 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 7.2;
- advantages and disadvantages of the Buy-Back 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 Australian Accounting Standards and International Financial Reporting Standards as if the pro-forma transactions set out in this section 7 had occurred on the applicable dates.

On this basis, and by way of illustration only, the potential impact of the Buy-Back on the VRL Group is shown in sections 7.3–7.5 below.

7.3 Indicative impact of the Buy-Back on total earnings per share

Figure 6 sets out an abridged consolidated income statement of the VRL Group for the year ended 30 June 2009 and an abridged pro-forma consolidated income statement of the VRL Group for the year ended 30 June 2009 (assuming VRL had bought back ordinary shares and preference shares under the Buy-Back in accordance with section 7.2(c)).

Figure 6 shows the illustrative impact of the Buy-Back on VRL's total earnings per share for the year ended 30 June 2009.

Figure 6 Abridged consolidated and pro-forma consolidated income statements of the VRL Group for the year ended 30 June 2009

Year ended 30 June 2009 ($m)	Abridged consolidated income statement[1]	Adjustment for sale of Greece and Czech Republic operations[5]	Pro-forma for sale of Greece and Czech Republic operations	Adjustment for indicative Buy-Back	Pro-forma abridged consolidated income statement
EBITDA	247.4	(12.2)	235.2	–	235.2
Net finance costs[2]	(58.7)	8.2	(50.5)	(7.1)	(57.6)
Depreciation and amortisation	(75.3)	8.2	(67.1)	–	(67.1)
Profit before tax	113.4	4.2	117.6	(7.1)	110.5
Tax expense[3]	(33.4)	(2.0)	(35.4)	2.1	(33.3)
Profit attributable to minority interest	(21.5)	–	(21.5)	–	(21.5)
Net profit attributable to members of VRL	**58.5**	**2.2**	**60.7**	**(5.0)**	**55.7**
Weighted average number of shares on issue[4]	224.7	–	224.7	(57.7)	167.1
Total earnings per share	**26.0**		**27.0**		**33.3**

Notes:
1 All amounts exclude material items
2 Net finance cost adjustments assume an indicative marginal interest cost/saving of 8.0%
3 Tax expense adjustments assume an indicative marginal tax rate of 30.0%
4 Represents ordinary shares and preference shares on issue
5 Includes the de-consolidation impact of the Greece and Czech Republic operations as well as interest assumed to have been earned on the net proceeds from the sale of the Greece and Czech Republic operations

(a) Indicative sensitivity analysis of the Buy-Back on total earnings per share

Figure 7 sets out the indicative impact of the Buy-Back on VRL's total earnings per share for the year ended 30 June 2009. 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 7.2 (assuming either 50% of the maximum number of shares, being 6,345,400 ordinary shares and 22.5 million preference shares or 100% of the maximum number of shares, being 12,690,800 ordinary shares and 45 million preference shares, are bought back).

For example, assuming 50% of the maximum number of shares are bought back, the indicative impact of the Buy-Back on VRL's pro-forma earnings per share would be to increase it from 27.0 cents to 29.6 cents.

For example, assuming the maximum number of shares are bought back, if the average price is $0.25 higher or lower, the indicative impact of the Buy-Back on VRL's pro-forma total earnings per share would be 0.5 cents per share lower or higher.

Figure 7 Indicative sensitivity table of pro-forma total earnings per share of VRL for the year ended 30 June 2009[1]

		Indicative average price paid during the Buy-Back ($)		
		–0.25	**Assumed price[2]**	**+0.25**
Number of shares bought back (m)	**28.8**	+0.2 cents	29.6 cents	–0.2 cents
	57.7	+0.5 cents	33.3cents	–0.5 cents

Notes:

1 Represents pro-forma total earnings per share (excluding material items) adjusted for the sale of Greece and Czech Republic operations and indicative Buy-Back

2 Represents $1.50 per ordinary share and $1.445 per preference share as set out in section 7.2

7.4 Indicative impact of the Buy-Back on the VRL Group's financial position

Figure 8 sets out selected information which has been derived from the balance sheet of the VRL Group as at 30 June 2009 (as presented in the full year financial report of VRL for the 12 months ended 30 June 2009) and an abridged pro-forma consolidated balance sheet of the VRL Group as at 30 June 2009 (assuming VRL had bought back ordinary shares and preference shares under the Buy-Back and proceeds from the sale of the VRL Group's Greece and Czech Republic operations had been received on 30 June 2009).

As announced to ASX on 5 October 2009, the net proceeds from the sale of the VRL Group's Greece operations (approximately $80 million) have been received.

Figure 8 shows the indicative impact of the Buy-Back on the VRL Group's financial position as at 30 June 2009.

Figure 8 Abridged consolidated and pro-forma consolidated balance sheet of VRL as at 30 June 2009

Year ended 30 June 2009 ($m)	Abridged consolidated balance sheet	Adjustment for sale of Greece and Czech Republic operations	Pro-forma for sale of Greece and Czech Republic operations	Adjustment for indicative Buy-Back	Pro-forma abridged consolidated balance sheet
Assets					
Cash and cash equivalents	79.6	(11.2)	68.4	(5.0)	63.4
Other assets	2,112.9	(109.2)	2,003.7	1.5	2,005.2
Total assets	**2,192.5**	**(120.4)**	**2,072.1**	**(3.5)**	**2,068.6**
Liabilities					
Interest bearing loans and borrowings	979.5	(105.8)	873.7	84.1	957.8
Other liabilities	503.9	(40.0)	463.9	–	463.9
Total liabilities	**1,483.4**	**(145.8)**	**1,337.6**	**84.1**	**1,421.7**
Net assets	**709.1**	**25.4**	**734.5**	**(87.6)**	**646.9**
Issued capital[1]	388.7	–	388.7	(87.6)	301.1
Reserves	323.4	(2.6)	320.8	–	320.8
Accumulated losses	(123.1)	28.0	(95.1)	–	(95.1)
Parent interests	589.0	25.4	614.4	(87.6)	526.8
Minority interests	120.1	–	120.1	–	120.1
Total equity	**709.1**	**25.4**	**734.5**	**(87.6)**	**646.9**
Net debt	899.9	(94.6)	805.3	89.1	894.4
Net debt/EBITDA	3.64x		3.42x		3.80x
EBITDA/net finance costs	4.21x		4.65x		4.08x

Note:
1 Issued capital includes ordinary share and preference share capital

Figure 8 illustrates that given the proceeds from the sale of the VRL Group's Greece and Czech Republic operations substantially account for funds required to complete the Buy-Back under the assumptions set out in section 7.2(c), the indicative impact, when taking both the Buy-Back and the sale of the VRL Group's Greece and Czech Republic operations into account, on VRL's credit ratios as at 30 June 2009 is minimal.

(a) Indicative sensitivity analysis of the Buy-Back on financial position

Figure 9, Figure 10, Figure 11 and Figure 12 set out the indicative impact of the Buy-Back on the VRL Group's financial position as at 30 June 2009. 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 7.2 (assuming either 50% of the maximum number of shares, being 6,345,400

ordinary shares and 22.5 million preference shares or 100% of the maximum number of shares, being 12,690,800 ordinary shares and 45 million preference shares, are bought back).

For example, if 50% of the maximum number of shares are bought back, the indicative impact of the Buy-Back on the VRL Group's net debt would be an increase of $47.0 million, resulting in a pro-forma net debt as at 30 June 2009 of $852.3 million (adjusted for the proceeds from the sale of the VRL Group's Greece and Czech Republic operations), which is $47.6 million lower than VRL's reported net debt as at 30 June 2009 of $899.9 million.

For example, assuming the maximum number of shares are bought back, if the average price is $0.25 higher or lower, the indicative impact of the Buy-Back on VRL's net debt/EBITDA would be 0.06x higher or lower.

Figure 9 Indicative cost to VRL of the Buy-Back

		Indicative average price paid during the Buy-Back ($)		
		–0.25	**Assumed price[1]**	**+0.25**
Number of shares bought back (m)	**28.8**	–$7.2m	$47.0m	+$7.2m
	57.7	–$14.4m	$89.1m	+$14.4m

Figure 10 Indicative net debt as at 30 June 2009

		Indicative average price paid during the Buy-Back ($)		
		–0.25	**Assumed price[1]**	**+0.25**
Number of shares bought back (m)	**28.8**	–$7.2m	$852.3m	+$7.2m
	57.7	–$14.4m	$894.4m	+$14.4m

Figure 11 Indicative net debt/EBITDA as at 30 June 2009

		Indicative average price paid during the Buy-Back ($)		
		–0.25	**Assumed price[1]**	**+0.25**
Number of shares bought back (m)	**28.8**	–0.03x	3.62x	+0.03x
	57.7	–0.06x	3.80x	+0.06x

Figure 12 Indicative EBITDA/net interest for the year ended 30 June 2009

		Indicative average price paid during the Buy-Back ($)		
		–0.25	**Assumed price[1]**	**+0.25**
Number of shares bought back (m)	**28.8**	+0.05x	4.33x	–0.05x
	57.7	+0.08x	4.08x	–0.08x

Note:

1 Represents $1.50 per ordinary share and $1.445 per preference share as set out in section 7.2

7.5 Indicative impact of the Buy-Back on shares on issue

VRL has a total of 224,563,900 shares on issue, comprising 126,908,449 ordinary shares and 97,655,451 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 2.1. However, the maximum number of shares that VRL intends to acquire under the Buy-Back is up to 12,690,800 ordinary shares (representing 10.0% of the total number of ordinary shares on issue) and up to 45 million preference shares (representing 46.1% of the total number of preference shares on issue).

Figure 13 sets out the indicative impact on VRL's total number of shares on issue assuming the Buy-Back is completed at up to the maximum number of shares to be bought back.

Figure 13 Indicative impact of the Buy-Back on VRL's total number of shares on issue

Shares bought back			Shares remaining		
Ordinary shares	Preference shares	Total	Ordinary shares	Preference shares	Total
6,345,400	22,500,000	28,845,400	120,563,049	75,155,451	195,718,500
12,690,800	45,000,000	57,690,800	114,217,649	52,655,451	166,873,100

7.6 Impact on VRL's franking account balance

The Buy-Back 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.

Franked dividends will not need to be paid on any shares repurchased and cancelled before the ex-dividend date of 12 November 2009.

7.7 Business operations

The Buy-Back 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, these funds will no longer be available to pursue other growth opportunities as they arise or to undertake other capital management initiatives.

7.8 Dividend policy

VRL's current dividend policy is not expected to change as a result of the Buy-Back and the Directors will endeavour to pay dividends with the maximum franking possible where it is prudent to do so.

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.

The Directors 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.

8. Tax implications for VRL shareholders

8.1 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.

8.2 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 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 tax consequences of distribution to beneficiaries who may be entitled to discount capital gains.

VRL shareholders who acquired their shares at or before 11:45 am 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.

8.3 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.

Appendix A Grant Samuel report

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22 October 2009

The Directors
Village Roadshow Limited
Level 1, The Jam Factory Complex
500 Chapel Street
South Yarra VIC 3141

Dear Directors

Independent Valuation Report

1 Introduction

Village Roadshow Limited ("VRL") is the owner and operator of a diversified portfolio of media and entertainment businesses. Its major assets are:

- a Theme Parks business, with theme parks on the Gold Coast in Queensland and in the United States, and aquariums and other attraction assets in Australia and New Zealand;
- a Cinema Exhibition business, which has 514 screens in 51 sites in Australia, and smaller businesses in Singapore and the United States;
- a 52.52% interest in Austereo Limited ("Austereo") ("Radio"). Listed on the Australian Securities Exchange ("ASX"), Austereo operates numerous FM radio stations across Australia, including the Today and Triple M networks;
- a Film Distribution business, which distributes films and other programming to cinemas, pay TV, DVD retail and free-to-air television; and
- equity and debt interests in a Film Production and Music business, which produces films in joint venture with Warner Bros, has an extensive film library, and has a music library focussed on jazz and traditional pop music.

VRL has 126.9 million ordinary and 97.6 million preference shares listed on the ASX. As at 16 October 2009, the aggregate market capitalisation of the ordinary and preference shares was $326.1 million.

VRL has advised Grant Samuel & Associates Pty Limited ("Grant Samuel") that it expects to announce a proposed on-market buy-back of its ordinary and preference shares on 23 October 2009. VRL will buy back up to 12.7 million ordinary shares and up to 45.0 million preference shares. Under the ASX Listing Rules, the price at which the ordinary and preference shares respectively will be bought back can be no more than 5% higher than the average market price[1] for each class of shares over the five previous trading days.

[1] As defined in ASX Listing Rule 7.33, market price is closing price excluding special crossings, overnight sales and exchange traded option exercises.

The directors of VRL have engaged Grant Samuel to prepare an independent valuation report setting out:

- Grant Samuel's opinion as to the value of ordinary and preference shares in VRL; and
- other factors that shareholders could consider in assessing whether to sell their shares into the on-market buy-back.

This letter contains a summary of Grant Samuel's valuation opinion and main conclusions and is extracted from Grant Samuel's full report. A copy of this letter and the full report will be lodged with ASX and be available on VRL's website.

2 Valuation of VRL Shares

- **Grant Samuel's valuation represents an assessment of the full underlying value of VRL. It does not represent an estimate of the possible future trading price of VRL ordinary or preference shares.**

  Grant Samuel's valuation of VRL represents an estimate of the full underlying value of VRL, that is, the value that could be realised through the sale of 100% of the company in a change of control transaction. The valuation does not represent an estimate of the price at which VRL ordinary or preference shares might trade in the future. For reasons set out below, Grant Samuel expects that VRL shares are likely to trade at a very deep discount to underlying value. VRL shares have historically traded at prices substantially lower than Grant Samuel's estimate of the underlying value of VRL.

- **Grant Samuel has valued the equity in VRL in the range $852-1,222 million.**

  Grant Samuel's valuation of VRL is summarised as follows:

VRL – Valuation Summary		
	Valuation ($ million)	
	Low	High
Theme Parks	800	900
Cinema Exhibition	304	354
Radio (52.52% interest)	310	350
Film Distribution	250	290
Film Production and Music	50	150
Head office costs (net of assumed cost savings)	(200)	(180)
Enterprise value	**1,514**	**1,864**
Other liabilities	(55)	(35)
Net borrowings as at 30 June 2009 (adjusted)	(607)	(607)
Value of equity	**852**	**1,222**

VRL has been valued by aggregating the estimated market value of each of VRL's businesses, its 52.52% interest in Austereo and its interests in the Film Production and Music business (a 40.9% equity interest in Village Roadshow Entertainment Group ("VREG") and a US$45 million loan advance to VREG), adjusting for corporate overheads (net of assumed cost savings) and deducting non-trading liabilities and net debt. The principal valuation approach adopted was capitalisation of earnings. Discounted cash flow analysis was considered in the valuation of the Film Production and Music division. VRL made available to Grant Samuel its earnings forecast (by business) for the year ending 30 June 2010, although the VRL directors have requested for reasons of commercial confidentiality that the forecast not be disclosed in Grant Samuel's report.

The valuation of each of VRL's businesses reflects their recent trading performance, their competitive positions within the markets in which they operate, their forecast earnings for the 2010 financial year, longer term growth prospects and other relevant factors.

The valuation is based on VRL's balance sheet as at 30 June 2009. Net debt for valuation purposes is based on adjusting net debt at that date. Austereo's net debt has been deducted from net debt per VRL's consolidated balance sheet, because it is separately taken into account in the valuation of Austereo. Other adjustments relate to the proceeds from the sale of VRL's Greek and Czech Republic Cinema Exhibition businesses net of debt (divested since 30 June 2009), cash utilised for working capital purposes that would not be available to shareholders (e.g. cash in tills), the interim dividend paid in July 2009, the mark-to-market value of VRL's hedge book and the notional proceeds on the exercise of outstanding VRL options.

The valuation of Austereo represents VRL's 52.52% interest in the estimated full underlying value of Austereo. It equates to a value per Austereo share of $1.71-1.93, which is a premium of 20-36% relative to recent Austereo share prices. Austereo shares have traded at a volume weighted average price ("VWAP") of $1.42 for the month ended 16 October 2009.

VRL shareholders should understand that the valuation is appropriate purely in the context of a hypothetical change of control transaction. No such transaction is currently proposed for VRL. Moreover, given the controlling shareholding in VRL of Village Roadshow Corporation Pty Ltd ("VRC"), it appears reasonable to conclude that it is highly unlikely that minority shareholders will ever be able to realise the full underlying value of VRL through a change of control transaction.

Furthermore, in assessing the valuation set out above, VRL shareholders should consider the following:

- the valuation assumes that a third party acquirer of VRL could achieve significant savings of head office costs, of the order of $20 million per annum. These savings contribute approximately $0.70-0.80 per share to the valuation. Shareholders should understand that there is no expectation that these savings will be achieved in the context of VRL continuing to trade in its current form;

- VRL has relatively high levels of net debt, particularly by comparison with its equity market value (although based on earnings and free cash flow levels the gearing is more reasonable), and its net debt will increase to the extent that it acquires shares under the on-market buy-back. The valuation implicitly assumes the acquisition of VRL by an acquirer that would be able to refinance or otherwise recapitalise the VRL assets. Effectively, the valuation assumes away the financial risk (including refinancing risk) inherent in the current VRL structure. However, this is a real financial risk for VRL shareholders and this risk will be exacerbated by the proposed share buy-back; and

- whilst all of VRL's businesses are broadly in the media and entertainment industries, the reality is that VRL is a conglomerate of disparate businesses. Its Theme Parks and Radio businesses have little in common with each other or with VRL's other businesses. It is likely that there would be different natural buyers for different businesses within VRL. The valuation does not reflect any "conglomerate discount" that might apply, notwithstanding that it may not be possible to find any buyer prepared to pay full underlying value for each of VRL's businesses.

THE VALUATION DOES NOT REPRESENT THE VALUE THAT GRANT SAMUEL EXPECTS VRL SHAREHOLDERS MAY BE ABLE TO REALISE FOR THEIR SHAREHOLDINGS.

- **The valuation represents a value of $3.69-5.30 for each ordinary and preference share.**

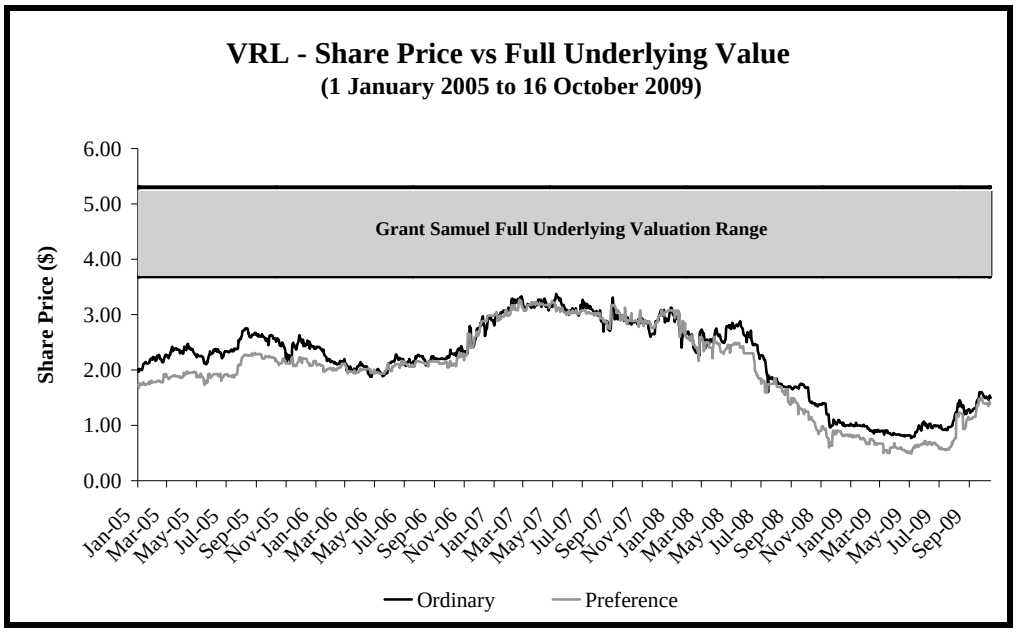
Assessments of underlying value aim to estimate the value that would be realised in a change of control transaction based on the aggregate of the estimated market value of each of VRL's businesses. In the event that an acquirer successfully acquired all the ordinary shares in VRL, the preference shares would convert to ordinary shares. As a practical matter it is likely that the acquirer would have to offer the same price to the holders of the preference shares as to holders of ordinary shares. Accordingly, Grant Samuel has allocated the total estimated underlying value of VRL equally between VRL's ordinary and preference shares. On this basis, the estimated

underlying value per share for both ordinary and preference shares (after adjusting for option dilution) is as follows:

VRL – Underlying Value per Ordinary and Preference Share ($ million)		
	Low	**High**
Value of net assets ($ million)	**852.0**	**1,222.0**
Ordinary shares on issue	126.9	126.9
Preference shares on issue	97.7	97.7
Options over ordinary shares	6.0	6.0
Fully diluted total shares on issue (ordinary and preference)	**230.6**	**230.6**
Value per share ($ per share)	**$3.69**	**$5.30**

The valuation is substantially higher than historical trading prices for VRL ordinary and preference shares.

VRL ordinary and preference shares have historically traded at much lower prices than the estimated full underlying value of VRL shares:



Source: IRESS and Grant Samuel analysis

The VWAP for VRL ordinary and preference shares, over a range of periods, are well below the estimated underlying value:

Volume Weighted Average Prices for VRL Ordinary and Preference Shares		
Period to 16 October 2009	**Ordinary Shares**	**Preference Shares**
Closing share price	$1.50	$1.42
VWAP for 30 days	$1.49	$1.30
VWAP for 60 days	$1.36	$1.15
VWAP for 90 days	$1.33	$1.04
VWAP for 6 months	$1.15	$0.89
VWAP for 12 months	$1.11	$0.86

- **It is reasonable for shareholders to assume that they will never be able to realise full underlying value.**

  Shareholders should understand that it is almost certain that they will never be able to realise full underlying value for their shares in VRL. Minority holders of ordinary shares and preference shares can only realise full underlying value in circumstances in which a successful takeover offer is made for VRL ordinary shares. Given the controlling shareholding of VRC, shareholders' prospects of realising full underlying value through a takeover offer are remote. It is possible that VRC could seek to privatise VRL at some future time. However, given VRC's existing controlling shareholding and the limited prospects of a competitive offer, there would be no need for any privatisation bid to be made at a price reflecting full underlying value.

3 Factors for Shareholders' Consideration in Evaluating the On-Market Buy-Back

Estimates of full underlying value are of only limited relevance in evaluating the on-market buy-back. As set out above, shareholders have no way to access full underlying value, other than through some change of control transaction for VRL from a party other than VRC, which appears unlikely. Moreover, shareholders should expect that VRL ordinary and preference shares will trade at a deep discount to underlying value. Portfolio interests in listed companies typically trade at a significant discount to underlying value (this discount is commonly assumed to be in the approximate range 15-25%), but in the case of VRL there are factors that suggest that the discount is likely to be much deeper than this:

- the 61.4% shareholding of VRC is likely to have a depressing effect on the share price, both in terms of removing any realistic prospect of a fully priced takeover offer for VRL and because investors are commonly cautious about exposure to family controlled companies;

- VRL has relatively high levels of debt, particularly by comparison with its equity market value (although based on earnings and free cash flow levels the gearing is more reasonable). The valuation of VRL on an underlying value basis essentially assumes that an acquirer would refinance or otherwise deal with the debt and accordingly the debt level has no impact on the judgements as to the value of VRL's businesses. In terms of sharemarket values, however, VRL's gearing is likely to have a significant effect, with the financial risk reflected in a lower market rating. This may be exacerbated after the buy-back to the extent that VRL's gearing increases;

- given the modest free float in VRL shares, there is limited liquidity in both the ordinary and preference shares. This illiquidity is compounded by the division of VRL's equity base into ordinary and preference shares;

- the "pyramid" structure of VRL, with its controlling 52.52% shareholding in Austereo, is likely to depress the market values of both Austereo and VRL. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value;

- there is extremely limited analyst coverage of VRL and limited institutional investment interest;

- while VRL's overall business interests have been rationalised in recent years, the Film Production and Music division in particular is difficult to understand and its debt facilities are subject to refinancing in 2010; and

- Grant Samuel's valuation of VRL assumes that an acquirer could achieve substantial savings of head office and listed company costs, of the order of $20 million per annum. However, these costs will continue to be incurred while VRL continues in its current public company form.

For all these reasons, estimates of underlying value have little bearing on shareholders' evaluation of the on-market buy-back. Rather, in considering whether to participate in the on-market buy-back, the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the buy-back. Factors that shareholders could consider include:

- recent sharemarket trading prices for VRL ordinary and preference shares;
- dividend expectations;
- factors likely to continue to depress trading prices for VRL ordinary and preference shares:
  - VRC's 61.4% controlling shareholding in VRL;
  - the relatively high levels of gearing in VRL;
  - VRL's inefficient capital structure, with the equity base divided as between ordinary and preference shares, and the limited liquidity in VRL ordinary and preference shares;
  - limited analyst coverage of and institutional interest in VRL;
  - the ongoing level of corporate costs that VRL will incur;
  - the "pyramid" structure of VRL, with its controlling 52.52% shareholding in Austereo; and
  - the minimal disclosure of earnings in relation to the Film Production and Music division due to VRL equity accounting its 40.9% interest, and the inherently volatile nature of the division and complexity of the financing arrangements;
- the risk that the buy-back, to the extent successful, will exacerbate some of these factors, including further reducing trading liquidity and increasing gearing;
- upside factors for the VRL share price:
  - VRL's relatively stable earnings and strong underlying cash flows, based on strong market positions in VRL's key businesses;
  - VRL's leverage to economic recovery; and
  - the possibility that VRL's share price will be supported by expectations of further corporate activity, including the prospect of a buy-out offer for minority shareholdings; and
- the possibility of realising greater value through some future buy-out proposal in the future. VRL has flagged that following the on-market buy-back it would be interested in pursuing the acquisition of the outstanding preference shares, although it has not indicated any timeframe for such a transaction. There is clearly a possibility that at some point in the future VRC will seek to fully privatise VRL (although there can be no certainty as to the timing of any privatisation proposal, or whether it will take place at all). Moreover, to the extent that shares are acquired by VRL under the current (or any future) buy-back at a significant discount to underlying value, there will be an effective transfer of value to the remaining shareholdings.

Shareholders should understand that, while there is a possibility that they could realise higher prices through not participating in the share buy-back and selling their shares at some later time, there can be no assurance that such a course of action will ultimately realise greater value:

- in the absence of speculation regarding further buy-backs or other corporate activity, VRL shares could again trade at depressed prices, particularly given that such negative factors as illiquidity and gearing will become more pronounced as a result of the current buy-back;
- there can be no certainty that there will be further buy-back proposals or other proposals to acquire minority shareholdings, or that any such proposals will be at prices higher than those available under the current buy-back (after adjusting for the time value of money); and
- VRL is subject to a variety of risks that could affect the future value of its businesses, including technological risks relating to the delivery of film/video content that have the potential to affect the value of its Cinema Exhibition and Film Distribution businesses. These business risks are exacerbated by the financial risks associated with VRL's gearing, capital structure and shareholding structure. Accordingly, VRL's equity value could change, potentially by significant amounts.

Effectively, holders of VRL ordinary and preference shares will need to compare the certainty of realising cash value in the short term, as offered by participation in the on-market buy-back, with the uncertain prospect of realising superior value in the future. Judgements in this regard will depend on numerous factors including investors' risk tolerance, liquidity requirements, expectations regarding future economic conditions in Australia and overseas, expectations of the future performance of the VRL businesses and other matters. Grant Samuel offers no opinion and makes no recommendation in this regard.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual holders of ordinary or preference shares in VRL. Because of that, before acting in relation to their investment, shareholders should consider their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by VRL in relation to the on-market share buy-back.

Participation in the on-market buy-back is a matter for individual shareholders, based on their own views as to value and future market conditions and their particular circumstances including risk profile. Shareholders who are in doubt as to the action they should take should consult their own professional adviser.

GRANT SAMUEL OFFERS NO OPINION AND MAKES NO RECOMMENDATION AS TO WHETHER HOLDERS OF ORDINARY AND PREFERENCE SHARES SHOULD PARTICIPATE IN THE ON-MARKET BUY-BACK.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of this summary.

The opinions set out in this letter and in the report of which this letter forms part are made as at the date of this letter and reflect circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

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VILLAGE ROADSHOW LIMITED

Financial Services Guide
and
Independent Valuation Report

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

22 October 2009

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent valuation report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Village Roadshow Limited ("VRL") in relation to the proposed buy-back of ordinary and preference shares ("the VRL Report"), Grant Samuel will receive a fixed fee of $425,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the VRL Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 October 2007. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the VRL Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with VRL that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Buy-Back.*
>
> *Grant Samuel commenced analysis for the purposes of this report prior to the announcement of the Proposed Buy-Back. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Proposed Buy-Back.*
>
> *Grant Samuel had no part in the formulation of the Proposed Buy-Back. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of $425,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposed Buy-Back. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 October 2007."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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1 Overview

Village Roadshow Limited ("VRL") has advised Grant Samuel & Associates Pty Limited ("Grant Samuel") that it expects to announce an on-market buy-back of its ordinary shares and its preference shares ("Proposed Buy-Back") on 23 October 2009. VRL intends to buy back up to 12.7 million ordinary shares (representing 10.0% of the total number of ordinary shares on issue) and up to 45.0 million preference shares (representing 46.1% of the total number of preference shares on issue).

VRL may buy back less than the maximum amount and shares may be bought back at prices and volumes determined by VRL. In accordance with the Australian Securities Exchange ("ASX") Listing Rules, VRL will buy-back VRL ordinary shares and preferences shares on market at a price which is not more than 5% above the average market price[1] for VRL ordinary shares and preference shares respectively over the 5 previous trading days. The price cap is imposed by ASX Listing Rule 7.33.

VRL's major shareholder, Village Roadshow Corporation Pty Ltd ("VRC") is controlled by John Kirby, Robert Kirby and Graham Burke, each of whom is an Executive Director of VRL. VRC and the Executive Directors of VRL control approximately 61.4% of VRL's ordinary shares but do not hold any preference shares. VRC and the Executive Directors have advised that they will not participate in the Proposed Buy-Back. In the event that 12.7 million ordinary shares are bought back, VRC and the Executive Directors' relevant interest in VRL ordinary shares will increase from 61.4% to 68.2%.

The VRL directors have stated that the objective of the Proposed Buy-Back is to improve the capital structure of VRL, which is believed to be inefficient and to contribute to a mispricing of VRL shares in the market. The directors of VRL consider that the elimination of the preference shares as a separate class of VRL shares would create more flexibility in terms of the ability to pay dividends and improve the investor attractiveness of VRL (although they have not indicated a timeframe over which this may occur).

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

[1] As defined in ASX Listing Rule 7.33, market price is closing price excluding special crossings, overnight sales and exchange traded option exercises.

2 Scope of the Report

2.1 Purpose of the Report

There is no mandatory requirement for an independent expert's report pursuant to the Corporations Act, 2001 ("Corporations Act") or the ASX Listing Rules in relation to the Proposed Buy-Back. Nonetheless, the directors of VRL have engaged Grant Samuel to prepare an independent valuation report setting out a valuation of VRL shares and the factors that VRL shareholders should consider in determining whether to participate in the Proposed Buy-Back. A copy of the report will be made available to VRL shareholders.

The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 110 which requires information to be disclosed to shareholders involved in or affected by share buy-backs. Regulatory Guide 110.18 provides that if a company proposes to buy back a significant percentage of shares or the holdings of a significant shareholder, it should consider providing an independent expert's report with a valuation of the shares.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual VRL shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by VRL in relation to the Proposed Buy-Back.

Participating in the Proposed Buy-Back is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Buy-Back should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in VRL. This is an investment decision independent of a decision to participate in the Proposed Buy-Back upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

2.2 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Explanatory Memorandum (including earlier drafts);
- annual reports of VRL and Austereo Group Limited ("Austereo") for the three years ended 30 June 2009;
- press releases, public announcements, media and analyst presentation material and other public filings by VRL and Austereo including information available on their website;
- brokers' reports and recent press articles on VRL and Austereo and the media and entertainment industries; and
- sharemarket data and related information on Australian and international listed companies engaged in the media and entertainment industries and on acquisitions of companies and businesses in these industries.

Non Public Information provided by VRL

- management accounts for VRL for the 2 years ended 30 June 2009, and for the months of July 2009 and August 2009;
- budget for the year ending 30 June 2010 prepared by VRL management;
- forecast for the year ending 30 June 2010 prepared by VRL management;
- projections for the three years ending 30 June 2013 prepared by VRL management; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has also held discussions with, and obtained information from, senior management of VRL and its advisers, and from senior management of Austereo.

2.3 Limitations and Reliance on Information

Grant Samuel believes that its valuation of VRL must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the valuation. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's valuation is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the valuation could be different in these changed circumstances.

This report is also based upon financial and other information provided by VRL and its advisers. Grant Samuel has considered and relied upon this information. VRL has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of valuing VRL. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of undertaking the valuation, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. In this context, Grant Samuel advises that it is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers.

Accordingly, this report and the valuation expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in performing a valuation of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of VRL. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included the forecast for VRL for the year ending 30 June 2010 prepared by management and adopted by the directors of VRL ("2010 Forecast"). VRL is responsible for this financial information. Grant Samuel has used and relied on this financial information for the purposes of its analysis. The major assumptions underlying the 2010 Forecast were reviewed by Grant Samuel in the context of current economic, financial and other conditions. Further, the 2010 Forecast and the underlying assumptions have been reviewed by Ernst & Young Transaction Services Pty Ltd for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the 2010 Forecast has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, inter alia, into account:

- the 2010 Forecast has been adopted by the directors of VRL; and
- the 2010 Forecast has been prepared through a detailed forecasting process involving preparation of "ground up" forecasts by the management of individual operations and review by management of VRL.

The directors of VRL have decided not to include the 2010 Forecast in the Explanatory Memorandum and therefore the 2010 Forecast has not been disclosed in this report.

The information provided to Grant Samuel also included VRL's longer term management projections for the three years ending 30 June 2013 (collectively the "Projections"). VRL is responsible for the Projections. Grant Samuel has not relied on the Projections for the purposes of its report but has considered this information in its review of VRL's future business strategy and prospects.

Grant Samuel has no reason to believe that the 2010 Forecast and the Projections reflect any material bias, either positive or negative. However, the achievability of the 2010 Forecast and the Projections is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

In undertaking the valuation and report, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Explanatory Memorandum sent by VRL to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposed Buy-Back will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposed Buy-Back are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Profile of Village Roadshow Limited

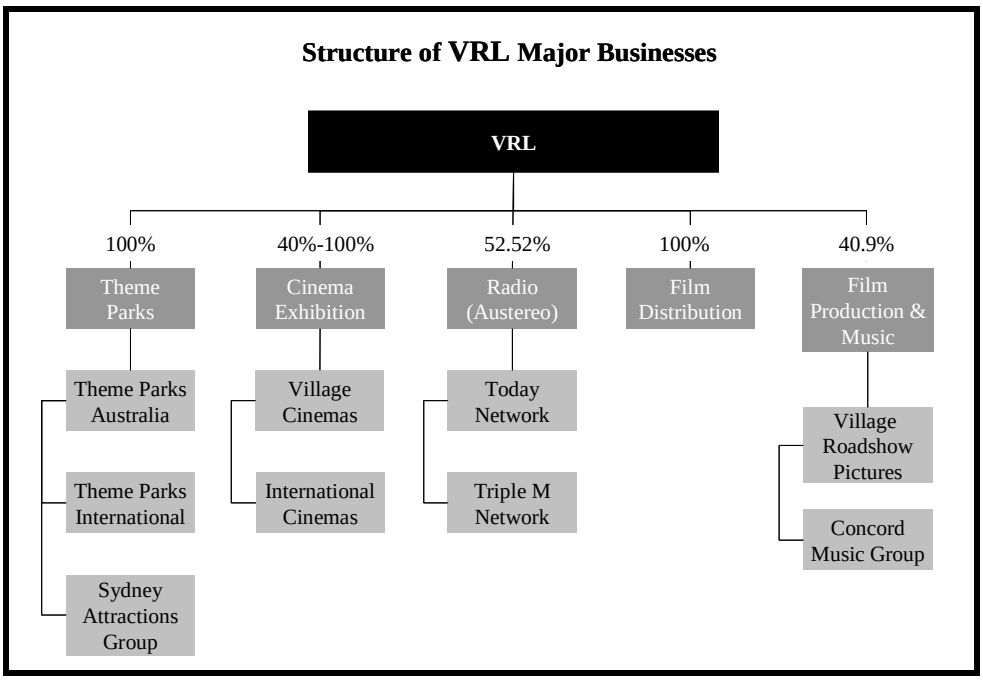
3.1 Background

The Village Roadshow group of companies was founded in 1954 as an owner-operator of drive-in cinemas. The drive-in cinema circuit was gradually expanded with the addition of more traditional cinemas in major population centres and during the 1960s and 1970s the company diversified into the related businesses of film production and distribution. During the 1980s and 1990s, VRL was one of the pioneers in the development of multiplex cinema complexes, the forerunners of the high quality multiplexes currently in operation around the world. These multiplex cinemas have since become the industry standard for comfort, quality of sound and state-of-the-art projection technology.

A greater need for access to the capital markets culminated in 1988 in a stock market listing of Village Roadshow Limited. Since then, VRL has diversified further into complementary media and entertainment businesses with the purchase and development of theme parks and the acquisition and integration of the Triple M and Today radio networks to create the separately listed Austereo, in which VRL has retained a 52.52% interest. Over the last ten years, the group has embarked on a major strategic program to refocus its operations and improve returns, especially in its Cinema Exhibition division. This program has seen a rationalisation of VRL's international cinema exhibition businesses, significantly reducing its geographic footprint. In addition, VRL has expanded its Theme Parks division through various acquisitions, including acquiring the remaining interests in the Gold Coast theme parks, Roadshow Distributors Pty Ltd ("Roadshow Distributors") and Sydney Attractions Group Pty Limited ("Sydney Attractions Group"), the owner and operator of leading tourist attractions in Sydney, and also acquiring Kelly Tarlton's Antarctic Adventure and Underwater World ("Kelly Tarlton's"), an aquarium in Auckland.

In addition, effective from 1 February 2008, VRL restructured its Film Production division into Village Roadshow Entertainment Group ("VREG"), which is owned 40.9% by VRL, resulting in the deconsolidation of the Film Production division.

An overview of VRL's structure is shown below:



Source: VRL

VRL's major divisions are:

- **Theme Parks:** operates theme park assets in Australia and the United States (including fun parks and water parks), and attraction assets in Australia and New Zealand (including aquariums and other wildlife assets);
- **Cinema Exhibition:** operates cinemas in Australia, Singapore and the United States. All circuits involve partnerships with locally based partners;
- **Radio:** comprises VRL's 52.52% interest in Austereo, Australia's largest commercial FM radio network, operating the Today and Triple M networks;
- **Film Distribution:** distributes theatrical movies, digital rights and other product to cinema, DVD, pay television and free-to-air television in Australia and New Zealand; and
- **Film Production and Music:** consists of Village Roadshow Pictures Group ("VRP") and Concord Music Group ("Concord"), together VREG. VRP's motion pictures are developed and produced in partnership with major United States motion picture studios, predominately Time Warner Inc. ("Warner Bros."). Concord is the largest independent record company in the world with a prestigious catalogue of jazz, blues, R&B and rock music. The Film Production and Music division is 40.9% owned by VRL.

VRL has been in partnership with Warner Bros. in several parts of the world for over thirty years. The relationship dates back to 1971 when VRL commenced distribution of Warner Bros. theatrical product in Australia and New Zealand. This partnership has expanded and today includes:

- the film co-production program and associated distribution arrangements;
- licensing arrangements with Warner Bros. Movie World theme park;
- theatrical film distribution in Australia and New Zealand; and
- the Movie Network pay television channels.

As at 16 October 2009, VRL had a market capitalisation of approximately $326.1 million.

3.2 Financial Performance

The financial performance of VRL for the three years ended 30 June 2009 is summarised below:

VRL – Financial Performance ($'000)			
	Year ended 30 June		
	2007	2008	2009
Theme Parks[2]	267,953	298,240	346,242
Cinema Exhibition	272,016	286,441	327,952
Radio[3]	250,539	257,921	251,870
Film Distribution[4]	30,948	422,922	447,854
Other	10,831	18,182	9,885
Total revenue	**832,287**	**1,283,706**	**1,383,803**
Theme Parks[2]	84,083	84,945	101,128
Cinema Exhibition	36,830	43,230	46,300
Radio[3]	87,990	94,352	87,419
Film Distribution[4]	15,034	55,724	57,021
Other	(28,847)	(40,878)	(44,510)
EBITDA[5]	**195,090**	**237,373**	**247,358**
Depreciation and amortisation	(52,838)	(70,382)	(75,280)
EBIT[6]	**142,252**	**166,991**	**172,078**
Net interest expense	(38,602)	(57,730)	(58,646)
Operating profit before tax	**103,650**	**109,261**	**113,432**
Income tax expense	(25,821)	(33,795)	(33,410)
Minority interests	(21,136)	(23,587)	(21,507)
Operating profit after tax[7]	**56,693**	**51,879**	**58,515**
Discontinued operations (net of tax)	(41,537)	181,570	-
Material items (net of tax)	29,923	23,433	(45,866)
Profit after tax attributable to VRL shareholders	**45,079**	**256,882**	**12,649**
Statistics			
Total earnings per share[8] ($)	*0.2183*	*0.2134*	*0.2604*
Dividends per ordinary share ($)	*0.3400*	*0.2650*	*0.1275*
Dividends per preference share ($)	*0.3700*	*0.2950*	*0.1575*
Dividend payout ratio (%)	*163.0%*	*130.1%*	*54.0%*
Amount of dividend franked (%)	*100.0%*	*100.%*	*100.0%*
Total revenue growth (%)	*(44.9%)*	*54.2%*	*7.8%*
EBITDA growth (%)	*12.0%*	*21.7%*	*4.2%*
EBITDA margin (%)	*23.4%*	*18.5%*	*17.9%*
Interest cover (times)[9]	*3.7x*	*2.9x*	*2.9x*

Source: VRL Annual Reports and Grant Samuel analysis

2 Theme Parks results for the 2009 financial year include full year results for the Sydney Attractions Group which was consolidated effective from 1 February 2008.

3 Represents 100% of Austereo. Austereo is consolidated by VRL.

4 Film Distribution results for the 2008 and 2009 financial years mainly represent consolidated results for Roadshow Distributors Pty Ltd, following VRL's acquisition of the remaining 50% effective 25 July 2007.

5 EBITDA is earnings before net interest, tax, depreciation and amortisation.

6 EBIT is earnings before net interest and tax.

7 All figures disclosed to derive operating profit after tax exclude discontinued operations and material items, which are shown separately.

8 Total earnings per share before material items and discontinued operations of both ordinary and preference shares.

9 Interest cover is EBIT divided by net interest.

Key events that have affected the financial performance of VRL since 2007 include:

- the 2007 and 2008 financial years marked a period of structural change for VRL, including:
  - in July 2006 completing the move to full ownership of all the Gold Coast Theme Park businesses (Warner Bros. Movie World, Warner Roadshow Studios, Sea World, Wet 'n' Wild Water World, Australian Outback Spectacular and Paradise Country) and, subsequently, acquiring the balance of Sea World Resort;
  - in July 2007 moving to 100% ownership of Roadshow Distributors, VRL's Australasian film distribution business;
  - progressing the rationalisation of the group's international cinema exhibition operations with the sale of the Italian cinema circuits, exiting from the two Austrian cinemas and disposing of its interest in the Palace cinema circuit in Australia; and
  - announcing a merger of VRP with Concord into VREG which was effective from 1 February 2008;
- during the 2008 financial year, VRL's Cinema Exhibition, Film Distribution and Radio divisions all achieved improved operating results. The significant increase in Film Distribution earnings reflected VRL's move to 100% ownership of Roadshow Distributors, as well as the success of theatrical releases such as *Harry Potter and the Order of the Phoenix*, *I Am Legend*, *Get Smart*, *Hairspray*, *Rush Hour 3* and *Sex and the City*. VRL continued to expand its theme park operations with an acquisition in Hawaii and the acquisition of the remaining balance of the shares in Sydney Attractions Group. The 2008 financial year result also reflected the profit of $181.6 million from the partial divestment, and subsequent deconsolidation, of VRL's investment in the Film Production and Music division; and
- despite difficult economic conditions, the profitability of VRL's Australian Theme Parks and Australian Cinema Exhibition divisions improved during the 2009 financial year, with the successful cost restructure in the Theme Parks division and the release of *The Dark Knight*, *Mamma Mia*, *Australia* and *Quantum of Solace*. The Theme Parks division also acquired aquarium operations in Auckland effective from 1 September 2008. However, the improved performance of the Australian Cinema Exhibition division was partially offset by the disappointing performance of United States Gold Class ("US Gold Class"). VRL's Radio division, Austereo, experienced a challenging year, with the overall radio advertising market declining by 3.28%. The Film Distribution division maintained its position as number one distributor in Australia and achieved a small improvement on its prior year result.

In the 2010 financial year, VRL expects to achieve growth in the Theme Parks division, with water parks offering considerable growth potential following the successful launch of Phoenix Wet 'n' Wild in July 2009, whilst earnings from the Cinema Exhibition division are expected to remain reasonably flat and the earnings of the Film Distribution division are expected to decline due to a continuation of the current global financial conditions.

Material items affecting the financial performance of VRL are summarised below:

VRL – Material Items ($'000)			
	Year ended 30 June		
	2007	2008	2009
Reversal of legal provisions – Film Production division	3,600	3,493	-
Loss on repurchase of convertible notes	(6,781)	-	-
Theme park restructuring costs written-off	(4,899)	-	-
Writedown and provision relating to non-current assets, including loans to associates	-	(10,000)	(8,888)
Unrealised mark-to-market profits (losses) on interest rate and foreign currency derivatives not designated in hedging relationships	-	5,733	(20,476)
Impairment of goodwill, investments, fixed assets and other intangibles	-	-	(50,324)
Total profit (loss) from material items before tax	**(8,080)**	**(774)**	**(79,688)**
Income tax benefit	38,003	24,207	32,018
Total profit (loss) from material items after tax	**29,923**	**23,433**	**(47,670)**
Loss attributable to minority interest	-	-	1,804
Total attributable profit (loss) to VRL shareholders from material items after tax	**29,923**	**23,433**	**(45,866)**

Source: VRL Annual Reports and Grant Samuel analysis

The following should be noted in relation to the major material items above:

- in the 2008 financial year, VRL provided for the recoverability of a loan to the Film Production and Music division of $10 million; and
- in the 2009 financial year, VRL recorded impairment charges relating to recent acquisitions including goodwill on acquisition of Sydney Attractions Group and VRL's investment in the US Gold Class business, and other non-current asset writedowns.

3.3 Financial Position

The financial position of VRL as at 30 June 2008 and 30 June 2009 is summarised below:

VRL - Financial Position ($'000)		
	As at 30 June 2008	**As at 30 June 2009**
Trade debtors	227,025	221,578
Inventories	24,184	21,482
Creditors and current provisions	(293,633)	(301,829)
Provision for income tax	(13,043)	(5,561)
Net working capital	**(55,467)**	**(64,330)**
Non-current receivables	37,525	60,318
Property, plant and equipment	692,399	745,817
Investments accounted for using the equity method	17,856	22,805
Intangible assets – Radio licences	453,194	453,194
Intangible assets – Goodwill and other	436,846	400,556
Film distribution royalties	132,800	114,531
Available for sale investments	4,759	1,720
Derivative financial instruments (net)	10,146	(16,268)
Deferred tax liabilities (net)	(59,324)	(41,035)
Non-current payables and provisions	(56,514)	(54,191)
Other	(9,180)	(14,131)
Total funds employed	**1,605,040**	**1,608,986**
Cash and deposits	65,614	79,626
Bank loans, other loans and finance leases	(937,891)	(979,531)
Net borrowings	**(872,277)**	**(899,905)**
Net assets	**732,763**	**709,081**
Minority interests	(123,291)	(120,097)
Equity attributable to VRL shareholders	**609,472**	**588,984**
Statistics		
Ordinary shares on issue at period end ('000)	*126,909*	*126,909*
Preference shares on issue at period end ('000)	*98,026*	*97,656*
Net assets per ordinary and preference share ($)	*2.71*	*2.62*
NTA[10] per ordinary and preference share ($)	*0.77*	*0.84*
Gearing[11]	*54.3%*	*55.9%*

Source: VRL Annual Reports and Grant Samuel analysis

The following should be noted in relation to VRL's financial position as at 30 June 2009:

- the investments accounted for using the equity method mainly represent VRL's investment in the Cinema Exhibition operations in Singapore;
- impairment charges relating to recent acquisitions including Sydney Attractions Group and the investment in the US Gold Class business have been the main factors for the $36.3 million reduction in the carrying value of goodwill and other intangibles to $400.6 million; and

[10] NTA is net tangible assets, which is calculated as net assets less intangible assets (excluding radio licences).

[11] Gearing is net borrowings divided by net assets plus net borrowings.

- net debt (borrowings less cash) as at 30 June 2009 was approximately $900 million. This represents the consolidated net debt position of VRL, and includes Austereo's net debt as at 30 June 2009. VRL currently has a $220 million corporate finance facility. This facility is secured by a share mortgage over VRL's shareholding in Austereo, share mortgages over certain VRL subsidiary companies and by guarantees from various wholly-owned subsidiaries of VRL. The remaining debt is separately secured over the assets of the Theme Parks, Film Distribution and Cinema Exhibition divisions. The Radio division has a separate unsecured long term debt facility.

In addition to the interest bearing liabilities reported on its balance sheet, other debt facilities exist in businesses in which VRL has an interest as at 30 June 2009:

VRL – Off-Balance Sheet Net Debt ($'000)

Borrower	Description	As at 30 June 2009[12]
Cinema Exhibition		
Village Roadshow Gold Class Cinemas LLC	Financing facility	(8,498)
Cash		1,452
Cinema Exhibition Net Debt		**(7,046)**
Film Production and Music		
VRP – Village Roadshow Films (BVI) Limited	Financing facility	(371,869)
VREG – Concord Music Group LLC	Financing facility	(54,179)
VREG – VRP Crescent Film Holdings Limited & VREG USA Inc	Financing facility	(61,739)
Cash		23,223
Film Production and Music Net Debt		**(464,564)**
Total		**(471,610)**

Source: VRL

VRP renegotiated its film finance facility in May 2009, resulting in:

- financial accommodation of US$900 million; and
- availability (subject to financial covenants) until 30 September 2010, with amortisation after that date, ultimately repayable by 30 September 2012.

3.4 Contingent Liabilities

Contingent liabilities at 30 June 2009 include various contingent liabilities in relation to the Film Production and Music division. VRL provides support to VRP by way of guarantees for VRP's liability for prints and advertising expenditure in relation to released films and for profit-sharing, predominantly with Warner Bros. The amounts owing by VRP supported by VRL guarantees total approximately US$15.8 million as at 30 June 2009. VRL does not believe that any future payment will be required under the guarantee to Warner Bros. In addition, VRL provided a new, limited guarantee capped at US$7.5 million to JP Morgan Chase, one of the key financiers of the Film Production and Music division. This guarantee relates to interest potentially payable by VRP and the Film Production and Music division. VRL does not believe that any permanent loss will result from this guarantee.

[12] Represents VRL's share.

3.5 Cash Flow

VRL's cash flow for the three years ended 30 June 2009 is summarised below:

VRL - Cash Flow ($'000)			
	Year ended 30 June		
	2007	2008	2009
EBITDA	**195,090**	**237,373**	**247,358**
Changes in working capital and other adjustments	(619,055)	675,855	(19,688)
Capital expenditure (net)	(51,955)	(54,828)	(107,161)
Operating cash flow	**(475,920)**	**858,400**	**120,509**
Tax paid	(12,110)	(41,923)	(27,102)
Net interest paid	(111,338)	(110,865)	(55,897)
Dividends paid	(105,154)	(83,088)	(39,650)
Dividends received	8,050	1,667	1,000
Acquisitions (net of cash)	(279,641)	(206,771)	(15,243)
Disposals	231,081	25,943	-
Loans to other entities (net)	(4,310)	(10,971)	(37,736)
Proceeds from borrowings (net)	445,303	295,791	39,140
Proceeds from share issues	-	5,700	-
Other	(159,073)	(73,985)	(12,649)
Net cash generated (used)	**(463,112)**	**659,898**	**(27,628)**
Net cash (borrowings) – opening	*(1,069,063)*	*(1,532,175)*	*(872,277)*
Net cash (borrowings) – closing	*(1,532,175)*	*(872,277)*	*(899,905)*

Source: VRL Annual Reports and Grant Samuel analysis

Key cash flow items over the past three years include:

- significant acquisitions were made in the 2007 to 2009 financial years, including the acquisition of the remaining interests in the Gold Coast Theme Parks from Warner Bros., Roadshow Distributors and the Sydney Attractions Group, as well as the acquisition of Kelly Tarlton's and various water parks across the United States. These acquisitions were primarily funded by debt;
- the significant proceeds from disposals in the 2007 financial year represents exits from non-core cinema territories in Italy, New Zealand, Fiji, as well as the proceeds from reducing VRL's shareholding in Austereo;
- dividends paid have progressively reduced since the 2007 financial year after a series of special dividends declared in previous years;
- the significant reduction in working capital in the 2008 financial year is the result of the deconsolidation of VREG; and
- capital expenditure increased significantly in the 2009 financial year primarily due to the development of Wet 'n' Wild Phoenix, as well as the investment in several new attractions across other assets in the Theme Parks division.

3.6 Taxation Position

Under the Australian tax consolidation regime, VRL and its wholly owned Australian resident entities have elected to be taxed as a single entity.

At 30 June 2009, VRL had carried forward gross income tax losses of approximately $89 million, which were recognised in the balance sheet. In addition, VRL had carried forward Australian

capital losses of approximately $83 million and foreign tax credits of approximately $29 million, neither of which were recognised in the balance sheet.

At 30 June 2009, VRL had approximately $4 million accumulated franking credits. These franking credits were almost fully utilised by the payment of the interim dividend for the 2009 financial year, paid in July 2009.

3.7 Capital Structure and Ownership

3.7.1 Capital Structure

As at 18 September 2009, VRL had the following securities on issue:

- 126,908,449 ordinary shares;
- 97,655,451 preference shares; and
- 6,000,000 options over unissued ordinary shares.

Preference shares have the right to receive dividends, if declared at the minimum of 10.175 cents per share or 3 cents above the ordinary dividend, whichever is higher. In the event of the winding up of VRL, preference shares rank in priority to all other classes of shares to the extent of $0.50 per share and, in addition, holders of such shares have the right to participate in the distribution of any surplus assets of the company equally with each fully paid ordinary share in the capital of the company.

A preference share confers no right to vote at any general meeting except in one or more of the following circumstances:

- on a proposal that affects rights attaching to the preference shares;
- during a period in which any dividend payable on the preference shares is more than 6 months in arrears;
- on a proposal to reduce the share capital of VRL;
- on a proposal to wind up VRL; and
- on a proposal for the sale of VRL's undertaking.

In the event of an unconditional takeover offer for VRL ordinary shares, the preference shares may convert to ordinary shares. The terms of issue of the preference shares are set out in VRL's constitution and the prospectus for the issue of the preference shares.

In accordance with a special resolution approved by VRL's shareholders on 17 July 2008, 6 million options over ordinary shares were allotted to the Managing Director, whereby:

- two million options are exercisable at an exercise price of $3.00, not earlier than 1 March 2011;
- two million options are exercisable at an exercise price of $3.00, not earlier than 1 March 2012; and
- two million options are exercisable at an exercise price of $3.00, not earlier than 1 March 2013.

All the options are subject to performance hurdles and are exercisable no later than 1 March 2015 or twelve months following the cessation of the Managing Director's employment with VRL, whichever is the earlier.

3.7.2 Ownership

At 18 September 2009, there were 4,852 ordinary shareholders and 2,777 preference shareholders in VRL. The top ten shareholders accounted for approximately 85.5% of the ordinary shares on issue and 67.8% of the preference shares on issue.

VRL has received notices from the following substantial shareholders:

VRL – Substantial Shareholders as at 18 September 2009

Shareholder	Number of Shares	Percentage
Village Roadshow Corporation Pty Limited & Executive Directors' shareholdings	77,859,352	61.35%[13]
UBS Nominees Limited	10,188,802	6.06%
Credit Suisse Holdings (Australia) Limited	7,083,726	5.58%

Source: VRL

VRC is a company associated with the Kirby family and Graham Burke. Robert Kirby is the Deputy Chairman and an Executive Director of VRL. John Kirby is the Chairman and an Executive Director of VRL. Graham Burke is Managing Director of VRL and has a relevant interest in the shares in VRL in which VRC has a relevant interest.

The following table sets out the major preference shareholders in VRL as at 18 September 2009:

VRL – Preference Shareholders as at 18 September 2009

Shareholder	Number of Shares	Percentage (%)
HSBC Custody Nominees (Australia) Limited	17,565,164	17.99
Citicorp Nominees Pty Limited	15,592,964	15.97
National Nominees Limited	10,261,687	10.51
UBS Nominees Pty Ltd	4,488,073	4.60
ANZ Nominees Limited <Cash Income A/C>	4,091,514	4.19
UBS Nominees Pty Ltd <PB SEG A/C>	3,891,848	3.99
JP Morgan Nominees Australia Limited	3,292,685	3.37
Ravenscourt Pty Ltd	3,125,502	3.20
Australian United Investment Company Limited	2,000,000	2.05
Beta Gamma Pty Ltd <Walsh Street Superfund a/c>	1,900,000	1.95
Top ten preference shareholders	**66,209,437**	**67.80**
Other preference shareholders	31,446,014	32.20
Total	**97,655,451**	**100.00**

Source: VRL

[13] VRC increased its shareholding to 61.4% on 8 January 2009, as per ASX release.

3.8 Sharemarket Performance

3.8.1 Share Price History

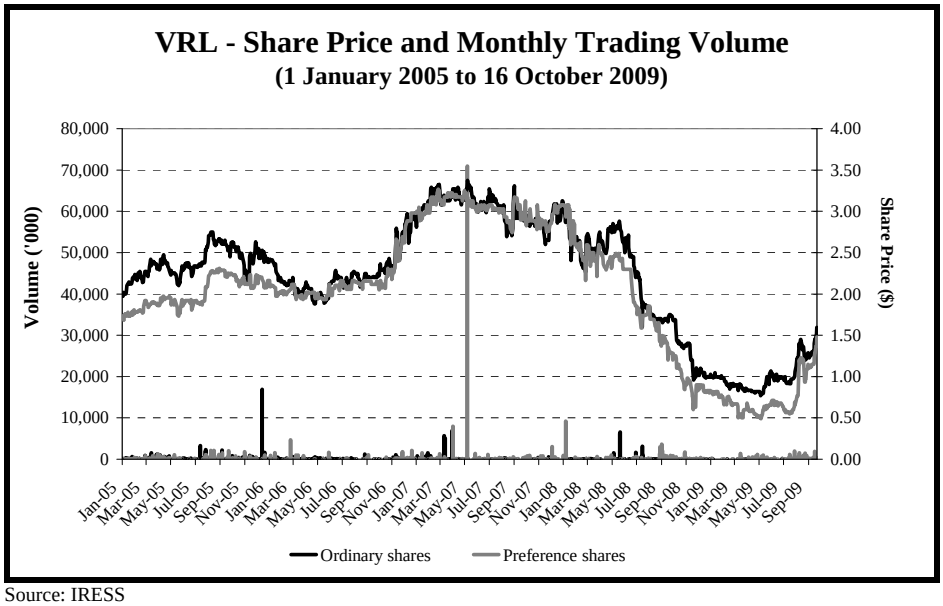
A summary of the price and trading history of VRL ordinary shares and preference since 1 January 2005 is set out below:

VRL – Ordinary Share & Preference Share Price History

	Share Price ($)			Average Weekly Volume ('000)	Average Weekly Transactions
	High	Low	Close		
Ordinary Shares					
Year ended 31 December					
2005	2.75	1.97	2.38	1,436	180
2006	2.97	1.88	2.90	520	133
2007	3.38	2.60	3.13	715	139
2008	3.13	0.96	1.00	611	117
Quarter ended					
31 March 2009	1.05	0.83	0.86	82	36
30 June 2009	1.07	0.77	1.00	217	44
30 September 2009	1.60	0.92	1.56	332	233
Week ended					
2 October 2009	1.60	1.52	1.52	176	172
9 October 2009	1.52	1.49	1.49	114	249
16 October 2009	1.54	1.46	1.50	86	189
Preference Shares					
Year ended 31 December					
2005	2.31	1.68	2.16	829	70
2006	2.98	1.93	2.98	526	20
2007	3.27	2.74	3.08	2,048	34
2008	3.08	0.60	0.83	897	40
Quarter ended					
31 March 2009	0.83	0.50	0.60	301	20
30 June 2009	0.72	0.49	0.64	755	26
30 September 2009	1.49	0.55	1.45	1,838	371
Week ended					
2 October 2009	1.50	1.40	1.40	288	73
9 October 2009	1.41	1.39	1.41	702	59
16 October 2009	1.42	1.35	1.39	635	116

Source: IRESS

The following graph illustrates price movements and trading volumes for VRL ordinary shares and preference shares since 1 January 2005:



Source: IRESS

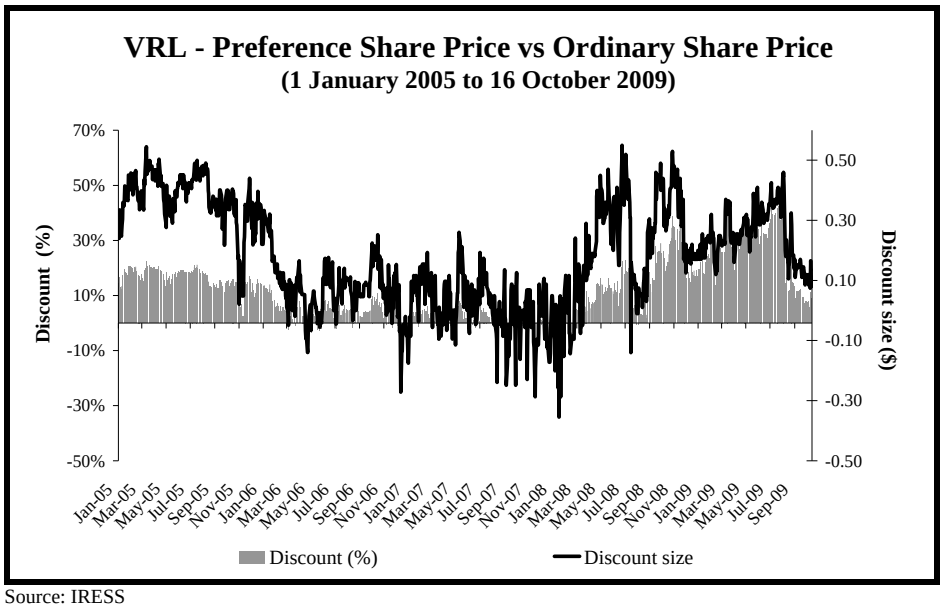
The preference share price performance has generally followed that of the ordinary shares, but at a discount.

From the 2006 financial year, VRL embarked on a phase of business restructuring and simplification of the group structure, which resulted in the share price rising in September 2007. During this period, VRL announced the merger of VRP and Concord, as well as the takeover offer for Sydney Attractions Group. The share price increased again in the period from April to July 2008, when VRL announced several acquisitions of water parks in the United States. During late 2008 and early 2009, the VRL share price declined in line with the general sharemarket.

In August 2009, VRL's share price rose after it announced that it had been approached by its major shareholder, VRC, and informed that VRC was working on a proposal for the potential privatisation of VRL. On 24 August 2009, VRL announced that it was informed by VRC that VRC was no longer working on a proposal for the potential privatisation of VRL. VRC told VRL that it did not intend to make a privatisation proposal for various reasons including the inability to arrange finance on terms acceptable to VRC.

The trading volume spike during May 2007 was the result of the acquisition by Paradice Investment Management Pty Limited of a substantial shareholding of preference shares. Paradice Investment Management Pty Limited is no longer a substantial shareholder of VRL.

The graph below depicts the trading performance of the ordinary shares versus the preference shares, in both absolute and percentage terms, over the period from January 2005 to October 2009:

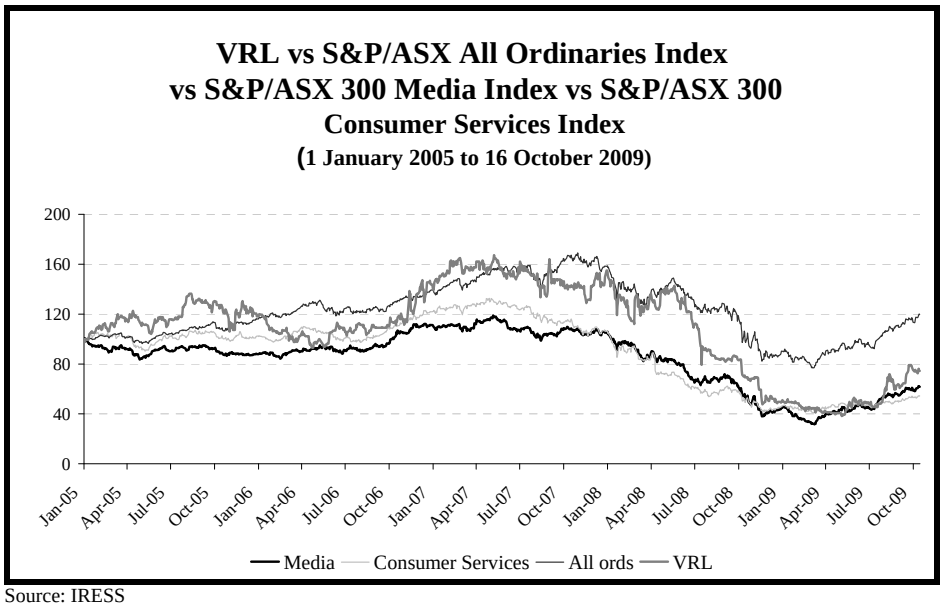


Source: IRESS

The preference shares have traded at both a discount and a premium to the ordinary shares. Trading volumes were generally higher for the preference shares than for the ordinary shares, reflecting the substantially greater free float of the preference shares. More recently, preference shares have traded at a discount to ordinary shares.

3.8.2 Relative Performance

The following graph illustrates the performance of VRL ordinary shares since 1 January 2005 relative to the S&P/ASX All Ordinaries Index, the S&P/ASX 300 Media Index and the S&P/ASX 300 Consumer Services Index:



Source: IRESS

VRL shares have generally traded in line with the S&P/ASX Consumer Services Index and the S&P/ASX 300 Media Index. VRL is not included in any ASX indices other than the All Ordinaries Index.

4 Profile of Operating Businesses

4.1 Theme Parks

4.1.1 Overview of Theme Parks and Aquariums Industries

The amusement and theme parks industry in Australia is made up of approximately 50 parks, of which 17 are located in Queensland. Despite Queensland having fewer amusement and theme parks than New South Wales and Victoria, it attracts the greatest number of visitors and accounts for approximately 60% of the total revenue generated for the Australian amusement and theme park industry. The Gold Coast, Queensland, is home to the largest concentration of themed attractions in the southern hemisphere.

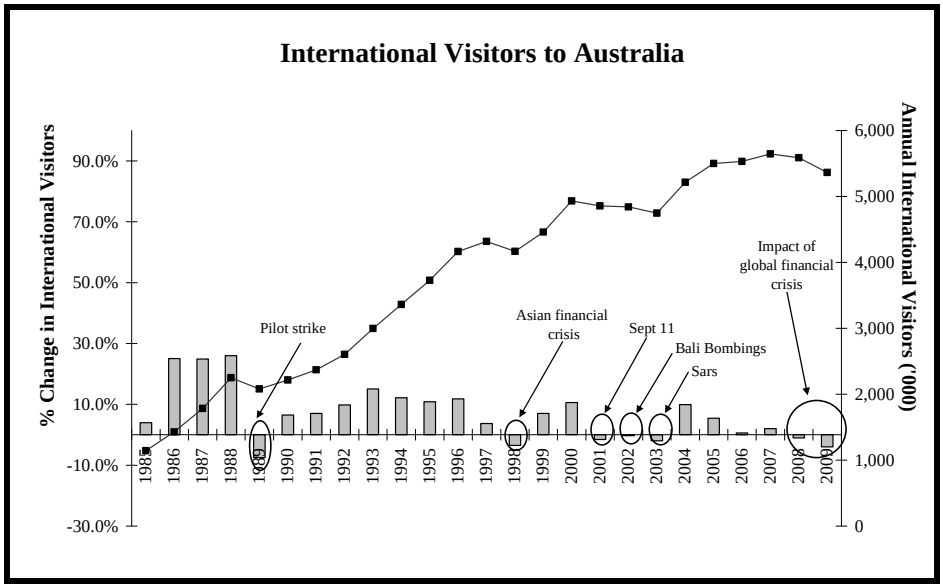
The key driver behind the revenues of theme parks and aquariums is attendance levels, which are heavily dependent on the volume and mix of domestic and international visitors to Australia. Factors affecting travel, such as economic growth, movements in real household income and people's ability to undertake a day or overnight trip, can directly impact industry revenues. The primary markets for theme parks are teenagers and the family market.

For the major Australian theme parks located on the Gold Coast, approximately 78% of customers are attracted from the domestic market, with approximately 41% of customers coming from Queensland. Accordingly, while theme park attendance is highly sensitive to trends in domestic and international travel, it is also reliant on repeat customers and competes directly with other recreational, leisure and entertainment opportunities. In order to attract repeat visitation, theme parks require regular investment in new attractions and targeted marketing. Theme parks generally aim to introduce major new attractions at least every three years.

Like theme parks, the aquarium industry is sensitive to factors affecting travel patterns and overall demand. For the major Australian zoos and aquariums, approximately 62% of customers are attracted from the local state market with an additional 12% from interstate. More than half the customers are expected to attend on more than one occasion each year. The 2008 Tourism Research Australia estimated that 38% of all international visitors visited a wildlife park, zoo or aquarium while in Australia.

Tourism in Australia

International tourist numbers to Australia declined from 2001 to 2003 due to the impact of terrorist acts, the SARS virus, and slower international economic growth in general, as illustrated in the graph below:



Source: Tourism Forecasting Council
Note 1: 2008 and 2009 numbers represent Tourism Forecasting Council estimate

From 2004 to 2007 international visitor numbers returned to positive growth, peaking in 2007 with 5.6 million international visitors for the year. However, since then the global financial crisis has had an impact on the number of international visitors, with a 1% reduction in 2008. Tourism Australia is forecasting a further decline in visitation levels in 2009. Despite the lower visitation levels, total expenditure by international visitors for the 2008 year was $16.7 billion, representing a 6% increase on the 2007 year.

Similarly, the financial crisis has had an impact on domestic tourism. For the year ended 31 December 2008 there were 70.5 million domestic overnight trips, representing a 4% reduction on the number of overnight trips in 2007). Expenditure by overnight visitors for the year amounted to $44.6 billion representing a 2% increase on the same period in 2007.

There were also approximately 136 million day trips for the year ended December 2008, representing an 8% reduction relative to the previous year. Expenditure by same day visitors amounted to $14.4 billion compared with $14.7 billion for the same period in 2007.

4.1.2 Overview of Operations

VRL's Theme Park division has two operating businesses:

- theme park assets, including water parks; and
- attraction assets, including aquariums.

VRL owns and operates Australia's largest theme park business, consisting of three of the country's major theme parks, located on the Gold Coast in Queensland:

- Warner Bros. Movie World ("Movie World");
- Sea World; and
- Wet 'n' Wild Water World ("Wet 'n' Wild").

In excess of 3 million people visit these three parks each year, providing employment for up to 2,500 staff. VRL became the sole owner of these theme parks in July 2006 when it bought out the remaining interests of Warner Bros. VRL also acquired the remaining

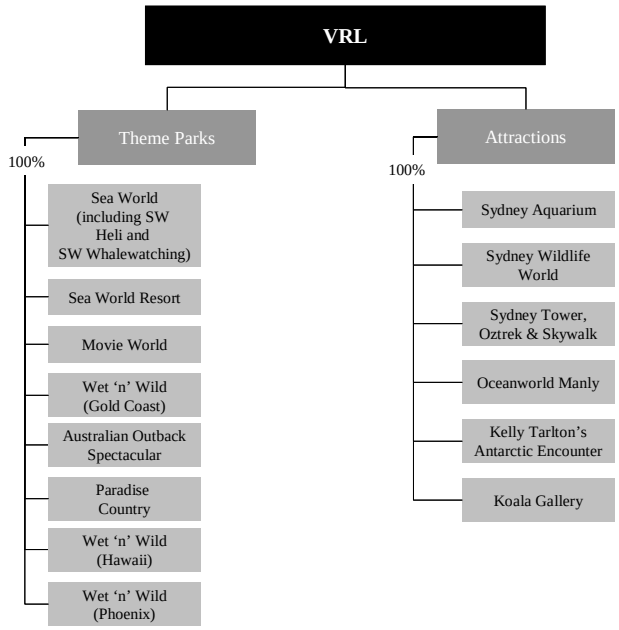
minority interest in the Sea World Nara Resort in September 2006, adjacent to Sea World, which has subsequently been renamed Sea World Resort. VRL's other major theme park operations are Warner Roadshow Studios, Australian Outback Spectacular, Paradise Country, Wet 'n' Wild Phoenix, Arizona and Wet 'n' Wild Hawaii.

VRL's attraction assets consist of Sydney Attractions Group and Kelly Tarlton's, with major assets in Sydney and Auckland. VRL completed its acquisition of Sydney Attractions Group by way of a takeover offer which concluded in March 2008, in which it paid approximately $141.1 million. VRL's attraction assets include:

- Sydney Aquarium and Sydney Wildlife World, located at Darling Harbour;
- Sydney Tower, Oztrek and Skywalk, located at the Sydney Tower;
- Oceanworld Manly, a smaller aquarium located on Manly beach;
- Koala Gallery on Hamilton Island, Queensland; and
- Kelly Tarlton's Antarctic Encounter and Underwater World in Auckland.

The chart below illustrates VRL's interest in each of its theme park and attractions businesses:

Structure of Theme Parks Division



Source: VRL

The key revenue drivers behind each of the Theme Parks businesses are:

- attendance levels and ticket prices;
- food and beverage and retail sales;
- functions; and
- sponsorship.

Attendance at each of the theme parks and attractions is made up of local, interstate and international visitors. Notably:

- in the Gold Coast theme park market, VRL has recognised the increasing importance of domestic visitors (including local and interstate). Domestic visitor numbers have grown from approximately 75% of attendees in the financial year ended 30 June 2003 to approximately 82% of attendees in the financial year ended 30 June 2008, and 84% of attendees in the financial year ended 30 June 2009. This growth has been underpinned by continued population growth in the Gold Coast region, which remains the fastest growing region in Australia. The reliance on domestic visitors also highlights the need to attract repeat customers. In order to attract repeat visitation, VRL continues to invest regularly in new attractions as well as providing incentives or discounts;

- international visitors to VRL's Gold Coast theme parks have declined, not only as a proportion of total visitors, but also in absolute numbers. In the financial year ended 30 June 2009, VRL had a total of 638,443 international visitors to its Gold Coast theme parks, representing a 12.1% reduction compared to the previous corresponding period. Various factors have contributed to this decline including the impact on international travel of terrorism and the global financial crisis. Traditionally, large numbers of international visitors have come from New Zealand and Japan. However, more recently, China has provided increasing numbers of international visitors; and

- for its attractions business, international visitors represent the majority of attendees. In the financial year ended 30 June 2009, approximately 54% of attendances came from international visitors, a slight decline on the previous corresponding period, during which 56% of attendances were from international visitors.

VRL management considers the Theme Parks division has two significant competitive advantages:

- large barriers to entry exist due to the significant capital expenditure required to establish a theme park and the limited availability of suitable locations and themes; and

- VRL operates three major theme parks in close geographic proximity and can therefore offer attractive and powerful cross selling promotions. Management believes that these promotions, which result in strong domestic visitation growth, provide a competitive advantage over its primary competitor, which has only two theme parks, Dreamworld and WhiteWater World.

An outline of each of VRL's theme parks and attractions businesses is set out below:

Warner Bros. Movie World

Movie World is Australia's only movie related theme park and includes movie themed thrill rides, behind-the-scenes action plays, comedy stunt shows and various other attractions and is one of Australia's leading tourist attractions. It is located on the Gold Coast on 138 hectares of freehold land, which also includes the Wet 'n' Wild, Paradise Country and Australian Outback Spectacular theme parks, and Warner Roadshow Studios.

Movie World's major attractions include the relatively new thrill rides of Batwing Spaceshot and Superman Escape, more familiar Scooby-Doo Spooky Coaster, Road Runner Rollercoaster and Wild West Falls Adventure Ride, as well as several themed shows.

Like most theme parks globally, the 2008 financial year was a relatively challenging one for Movie World, with total attendances largely flat compared to the 2007 financial year.

In the 2009 financial year, however, Movie World returned to positive growth with approximately 5.8% growth in total attendances.

Sea World

The Sea World theme park provides marine related experiences through a range of rides, shows and attractions on the Spit at Main Beach on the Gold Coast. Sea World seeks to provide entertainment and education through its major attractions which include a range of thrill seeking rides, interactive activities and exhibitions and various staged shows.

Sea World and the Sea World Resort are located on a Crown leasehold site of 26 hectares. The long term lease with the Queensland Government expires in 2057.

Sea World total attendances declined approximately 5.2% in the 2008 financial year and by approximately 2.0% in the 2009 financial year.

Sea World Resort and Water Park

VRL also owns 100% of the low rise Sea World Resort and Water Park a 405 room, 4 to 4½ star hotel with its own water park, located adjacent to Sea World on the Spit at Main Beach on the Gold Coast.

The Sea World Resort is linked to Sea World by monorail, with guests generally having unlimited access. In 2009, VRL integrated the existing Sea World water park with the Sea World Resort to create the Gold Coast's first water park resort. This innovation is designed to increase room prices and increase overall occupancy.

Occupancy rates at Sea World Resort have steadily increased over the last five years to peak at approximately 78.9% in the 2009 financial year, although average room rates have declined in the last couple of years. Management recognises the potential to increase occupancy rates and average room rates as the full benefits of the Sea World water park integration are realised.

Wet 'n' Wild Water World

The Wet 'n' Wild theme park is a large water park located next to Movie World. Wet 'n' Wild focuses on providing water based entertainment for its customers through attractions including a range of thrill seeking rides, a giant wave pool and a large outdoor cinema in the wave pool.

Apart from the 2008 financial year, Wet 'n' Wild has experienced consistent growth in attendances over the last four years, benefiting considerably from cross promotion incentives introduced by VRL. Attendances grew by approximately 11.6% in the 2009 financial year. VRL management is confident Wet 'n' Wild will continue to grow its market share in the medium term.

Warner Roadshow Studios

Warner Roadshow Studios is wholly owned by VRL and is a purpose-built film production facility located next to Movie World on the Movie World Site.

The studios offer film production facilities comprising eight sound stages, three water tanks, ten production offices, editing suites, wardrobe, makeup, construction, paint and carpentry shops. Village Roadshow Studios is one of the largest studio lots in the Southern Hemisphere.

Revenues are primarily derived from stage and office rentals as well as the provision of consulting services through Warner Roadshow Production Services.

Over the last few years, film production in Australia, and more particularly Queensland, has become highly cost effective for producers, primarily driven by Federal and State Government incentives and rebates. In the last decade, nearly all major production companies have used Warner Roadshow Studios. The success of the Studios in attracting international film productions is highly dependent on the Australian dollar exchange rate. The business is highly competitive with similar other businesses in other countries.

Although Warner Roadshow Studios is an integral part of the product mix offered by the Theme Park division, it is a relatively small contributor to earnings.

Australian Outback Spectacular

Australian Outback Spectacular is a night show staged in a 1,000 person arena also located on the Movie World site. A new show, *Tribute to the Heroes of the Light Horse*, is due to open in late September 2009.

After the initial start up capital expenditure in 2006, Australian Outback Spectacular has provided a useful additional source of earnings to the Theme Park division. Attendances have been in slight decline since their peak in the 2007 financial year.

Paradise Country

Paradise Country is an Australian animal and farm experience, located on the Movie World site on the Gold Coast. The themed attraction seeks to provide international customers with an authentic Australian homestead, farm life and outback adventure experience. Paradise Country is a relatively small contributor to the earnings of the Theme Park division.

Wet 'n' Wild Hawaii

Wet 'n' Wild Hawaii is located approximately 40 minutes from Honolulu Airport. The water park has more than 25 rides and attractions. It is the only water park in Hawaii and is a leading family attraction on the island. Originally opened in 1989, VRL acquired the water park in 2008 and rebranded it Wet 'n' Wild in 2009.

In order to release capital, VRL undertook a sale and leaseback of the Wet 'n' Wild Hawaii property in May 2009. More recently management has adopted a strict cost management program to offset the weakness in attendance numbers resulting from a general decline in tourist activity on the island.

Wet 'n' Wild Phoenix

Wet 'n' Wild Phoenix is a large water park located near the border of Phoenix and Glendale, in Arizona in the United States. The park was acquired in November 2008 and underwent a 7 month, US$29 million redevelopment, before it was reopened under the Wet 'n' Wild brand in July 2009.

As part of the redevelopment of Wet 'n' Wild Phoenix, many new attractions were introduced, inspired by its Wet 'n' Wild "parent" on the Gold Coast. Since its reopening in July 2009, the water park has enjoyed strong attendance levels.

Sydney Aquarium

Sydney Aquarium is located at Darling Harbour and is the most visited paid tourist attraction in Sydney. The aquarium is located on leasehold land. The lease expires in 2037, with an option to extend to 2086 at VRL's option.

Sydney Aquarium owns Australia's largest collection of aquatic life with over 12,000 animals. Its numerous attractions include a range of 'Dangerous Creatures' exhibits, various habitat exhibits and a new interactive exhibit featuring the dugong.

Sydney Aquarium is the premier asset in the Sydney Attractions Group, and enjoys strong international visitation levels. The impact of the global financial crisis was felt in the 2009 financial year however the launch of the dugong exhibit and strong marketing campaigns led to total attendances only declining by approximately 0.7%.

Sydney Wildlife World

Sydney Wildlife World opened in September 2006 and exhibits a range of Australia's unique flora and fauna. It is located next door to the Sydney Aquarium at Darling Harbour on leasehold land, with an expiry in 2037, and options to extend to 2086 at VRL's option.

Sydney Wildlife World features around 1 kilometre of walkway space across 3 floors of exhibits, with the upper level of exhibits in the open air under a mesh roof. Sydney Wildlife World includes a collection of over 200 species of Australian wildlife including koalas, kangaroos, wombats, wallabies, snakes, spiders and various nocturnal marsupials.

In the 2009 financial year, total attendance levels at Sydney Wildlife World were heavily affected by the global financial crisis, with an approximate 23.9% reduction in attendance levels compared to the previous corresponding period. With a general recovery in the economic climate, new attractions, improved interactivity and strong cross promotion with the Sydney Aquarium, management believes total attendances at Sydney Wildlife World should recover in the 2010 financial year.

Sydney Tower, Oztrek and Skywalk

Sydney Tower, Oztrek and Skywalk, is a tourist facility operated at the Sydney Tower, Sydney. The turret of Sydney Tower, which opened to the public in August 1981, has an observation deck standing 250 metres above sea level and provides a 360 degree panoramic view of Sydney. The site is leased from Westfield, under a lease that expires in 2010 subject to options to extend to 2023.

Located onsite is Oztrek, the largest simulated ride in the southern hemisphere, simulating a virtual adventure across Australia's cultural history and geography through 3D technology, animated models and scenic art.

Skywalk is a high-altitude outdoor walk adventure on top of Sydney Tower, 260 metres above Sydney. Dressed in protective clothing and safety-harnessed to external walkways, Skywalkers experience an external walk at double the height of Sydney Harbor Bridge and the same height as the Eiffel Tower.

During the 2009 financial year the Sydney Tower saw a decline in attendees of approximately 7.3% compared to the previous corresponding period, largely due to the impact of landlord refurbishments in building works being undertaken by the precinct shopping centre developers. However, the impact on earnings was offset by higher attendances at the relatively new Skywalk attraction.

Oceanworld Manly

Oceanworld Manly is situated on the water at Manly Cove beach, approximately 200 metres from Manly Wharf. The aquarium opened in 1973, and was acquired in 2008 by VRL as part of the Sydney Attractions Group. The aquarium includes a wide range of attractions including sharks, giant stingrays, turtles and shoals of fish, in a 5 million litre oceanarium. The aquarium is held on leasehold land, under a lease that expires in 2017

with an option to extend to 2027. Oceanworld Manly makes only a modest contribution to the earnings of the Theme Park division.

Koala Gallery

Koala Gallery, on Hamilton Island in Queensland, was acquired by VRL in 2008 and is a unique local fauna park attraction for the tourists of Hamilton Island. Koala Gallery is a relatively small contributor to the earnings of the Theme Park division.

Kelly Tarlton's Antarctic Encounter and Underwater World

Kelly Tarlton's is an aquarium located in Auckland, New Zealand. Kelly Tarlton's opened in 1985 and was acquired by VRL in September 2008. The aquarium is located on leasehold land, under a lease that expires in 2034. The two main features of the aquarium are the Antarctic Encounter with King and Gentoo penguins and Underwater World (the original part of the aquarium including sharks and various fish).

Attendance rates at Kelly Tarlton's for the 2009 financial year were approximately 12.1% lower than for the previous year.

4.1.3 Financial Performance

The operating performance for the Theme Parks division is summarised in the following table:

Theme Parks – Operating Performance ($'000)

	Year ended 30 June		
	2007	**2008**	**2009**
Attendances ('000)	*4,253*	*6,533*	*6,774*
Theme Parks	267,953	277,271	288,681
Attractions	-	20,969	57,561
Total revenue	**267,953**	**298,240**	**346,242**
Theme Parks	84,083	80,082	81,275
Attractions	-	4,863	19,853
EBITDA	**84,083**	**84,945**	**101,128**
EBIT	60,527	59,116	68,491
Capital expenditure	20,478	33,000	74,372

Source: VRL

In reviewing the operating performance of the Theme Parks division, the following should be noted:

- despite difficult operating conditions due to global terrorism threats and, more recently, the global financial crisis, the Theme Parks division has enjoyed consistent revenue growth over the last few years and is forecast to continue that growth in the 2010 financial year. Revenues rose strongly in the 2007 financial year by approximately 25.3% to $268.0 million following the acquisition of the remaining interests of Warner Bros. in the major Gold Coast theme parks. In the 2008 financial year, revenues rose to $298.2 million, an increase of approximately 16.1%, following VRL's successful takeover of Sydney Attractions Group effective from 1 February 2008. Revenues are forecast to enjoy strong growth in the 2010 financial year, supported by the opening of Wet 'n' Wild Phoenix; and

- following significant capex in the 2006 financial year, including $21.8 million spent at the Australian Outback Spectacular, $14.3 million at Wet 'n' Wild and $18.5 million spent at Movie World, the Theme Park division reduced expansionary capital expenditure substantially in 2007. In the 2008 and 2009 financial years, expansionary capital expenditure increased as a result of considerable investments in Movie World ($20.1 million) and Sea World ($21.5 million) over the two year period.

4.2 Cinema Exhibition

4.2.1 Overview of the Cinema Exhibition Industry

General

The global filmed entertainment market (of which the exhibition market is a subset) was worth over $100 billion in the 2008 calendar year, and has continued to grow despite recent difficult global economic conditions.

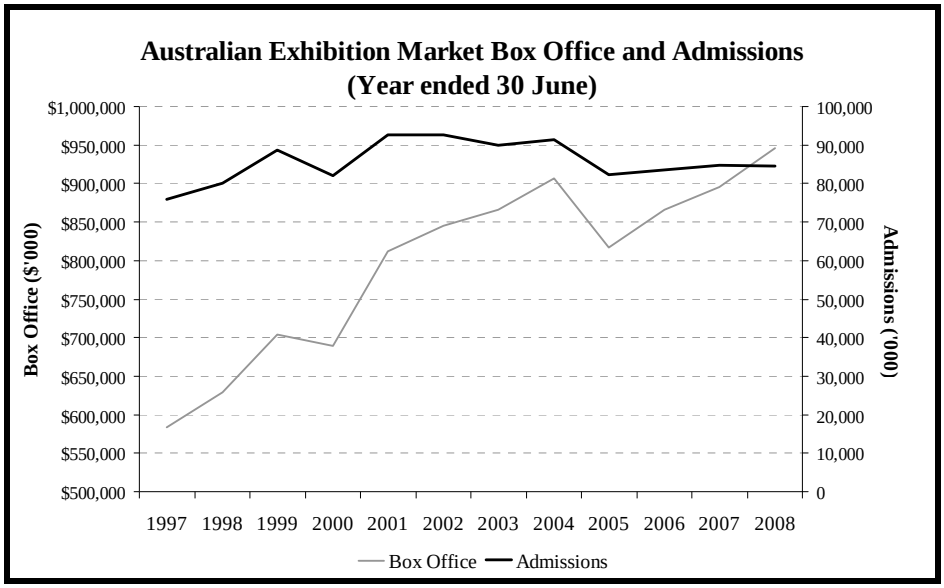
A range of factors affect attendance levels including the quality and popular appeal of films, the amount spent promoting films, weather conditions, the cost of tickets, general economic conditions, population growth, household disposable income and competition from other leisure activities.

An exhibition business has three key revenue sources: ticket sales, concession (i.e. food and beverage) sales and advertising. Each of these is driven primarily by attendance levels. An exhibition business is fundamentally dependent on the quality and popularity of films for its success. The business will generally perform best when there is a consistent spread of popular films throughout the year. The major costs in an exhibition business are film hire, rent and labour. The typical film hire arrangements mean that films that run for long periods are the most profitable for the exhibitors, as the film hire cost typically drops significantly over time.

The market outlook is positive with a number of movies expected to achieve blockbuster status in the 2010 financial year including *Harry Potter and the Half Blood Prince*, *Transformers 2*, *Ice Age 3*, *Avatar* and *Shrek Forever After*.

Australia

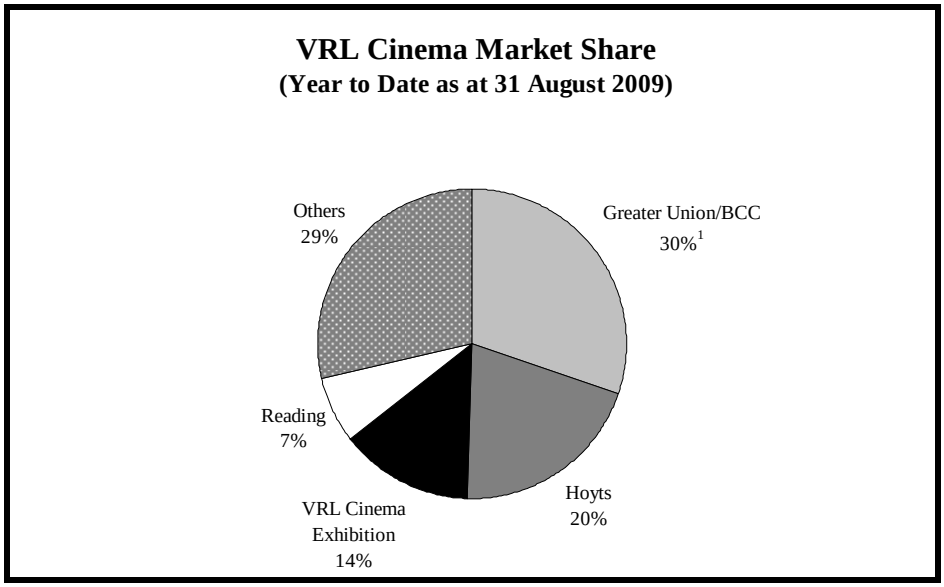
The Australian exhibition market grossed $945 million at the box office in 2008, with admissions of nearly 85 million. Cinema admissions have remained strong despite recent challenging economic conditions. Despite a plateau in the number of cinema attendees, box office takings have improved as a result of factors such as rising ticket pricing and value-added product such as 3D cinemas, Gold Class and Vmax:



Source: VRL

The growth in admissions has been supported by significant increases in the number of screens. This has been primarily as a result of the development of multiplex sites.

The three major participants in the Australian market are VRL (through its Cinema Exhibition division), Greater Union/Birch Carroll & Coyle ("BCC") (a wholly owned subsidiary of Amalgamated Holdings Limited ("Amalgamated")) and Hoyts. VRL and Greater Union have a joint venture which covers most of their respective sites. In addition, there are a significant number of independents and smaller operators. Despite entering the Australian market almost ten years ago, Reading from the United States holds only a relatively small market share:



Source: VRL
Note 1: 30% represents all Greater Union/BCC sites, not just those in the joint venture

The market outlook in Australia is strong, given expectations of attractive film product and continued cinema attendance despite challenging economic conditions.

4.2.2 Overview of Operations

VRL's Cinema Exhibition division conducts its activities through the Village Cinemas business in conjunction with a number of joint ventures. The business commenced operation in 1954 with a drive-in cinema and has since had a continuous involvement in the development of cinemas in Australia and overseas. VRL's Cinema Exhibition division is the company's oldest business. VRL was one of the pioneers of the now global standard of the multiplex cinema complex, and has also developed cinema concepts such as Gold Class, Vmax, Vmax 3D and Cinema Europa.

In the 1990s, VRL's Cinema Exhibition division undertook an aggressive expansion of its cinema network both in Australia and overseas, including in New Zealand and parts of Asia, South America and Europe. In 1999, however, Cinema Exhibition significantly changed its global growth strategy. This involved focusing on a smaller number of core territories where Cinema Exhibition had a substantial market share, strong profitability, first mover advantages and significant management influence and control. This resulted in the sale of its businesses in all countries except Australia, Singapore and the United States. The growth profile of the division consequently changed from high growth through expansion in many international territories to a much lower growth profile focussed on three countries.

A summary of the past ten years of restructuring can be seen below:

Cinema Exhibition – Ten Year Acquisition and Disposal History

Date	Description	($ million)
Mar 2000	Divestment of interest in Golden Harvest Entertainment (Hong Kong)	64
Aug 2000	Divestment of Hong Kong Cinema circuit	13
Nov 2000	Divestment of 8 multiplex cinemas in Germany	28
Jun 2001	Divestment of French, Swiss and Hungarian cinema operations	61
Jul 2001	Acquisition of further 50% interest in 2 cinemas in Greece	25
Mar 2002	Divestment of Thailand, Malaysia and India operations	29
Sep 2002	Divestment of Korean operations	132
Mar 2003	Acquisition of 50% of Warner Bros. one third stake in Australian Multiplex joint venture operations	(50)
May 2003	Divestment of United Kingdom joint venture theatres	260
Oct 2004	Divestment of Taiwan joint venture	26
Oct 2005	Divestment of Argentina cinemas	-
Jun 2006	Divestment of United Kingdom cinema interests	(32)
Sep 2006	Divestment of New Zealand cinema interests	50
Oct 2006	Divestment of Italian cinema investment	60
Jul 2009	Divestment of Greece business	82
Jul 2009	Divestment of Czech Republic business	3

Source: VRL

VRL's Cinema Exhibition division has a number of joint venture and partnership arrangements, with Village Cinemas typically holding around 50%. This has historically provided Cinema Exhibition with the ability to grow the division faster, and, in overseas countries, has provided local knowledge, brand value, contacts, buying power and expertise.

In Australia, the division is divided into two businesses: "multiplex joint venture" circuit and "other" circuit (regional joint ventures and wholly owned). Village Cinemas has an equal share joint venture in Australian multiplexes with Greater Union. Originally, the

joint venture was between Greater Union, Warner Bros. and Village Cinemas in equal shares, but in 2003, Village Cinemas and Greater Union acquired Warner Bros.' one third share of the Australian multiplex business for approximately $100 million, resulting in Greater Union and Village Cinemas each holding 50% in the multiplex joint venture. Village Cinemas manages the Victorian multiplex joint venture cinemas and Greater Union manages joint venture cinemas in the other States. Additionally, Village Cinemas is a party to a number of smaller joint ventures across Victoria, Tasmania and in Albury, New South Wales, which comprise part of the "other" circuit.

In Singapore, Village Cinemas is in an equal share partnership with Golden Screen Limited, a subsidiary of the Hong Kong listed Golden Harvest. The business is operated under the name "Golden Village Multiplex".

In the United States, Village Cinemas is in an equal share joint venture with Crescent Investments LLC. The joint venture currently owns 80% of two Gold Class cinemas, giving Village Cinemas an effective 40% economic interest. Four more sites are planned to open in the 2010 financial year.

Village Cinemas currently has an interest in 602 screens at 62 locations in Australia, Singapore and the United States. In the year to 30 June 2009, approximately 36 million customers were entertained at cinemas in which Village Cinemas has an interest. The numbers of screens, sites and customers by country as at 30 June 2009 are summarised below:

Cinema Exhibition - Operations by Country

	Sites		Screens		Admissions	
Country	**Number**	**%**	**Number**	**%**	**Number (m)**	**%**
Australia	51	82	514	85	28	78
Singapore	9	15	73	12	8	22
United States	2	3	15	2	0	0
Total	**62**		**602**		**36**	

Source: VRL
Note: Includes all sites and screens in which VRL has an economic interest, taking no account of ownership structure. Percentages may not add due to rounding.

As can be seen in section 4.2.1, Cinema Exhibition is number three in the Australian exhibition market. In the Victorian market where Cinema Exhibition trades under its own label, Village Cinemas, Cinema Exhibition holds a 51% market share. In Singapore, the joint venture, Golden Village Multiplex, is the number one market player, holding a 45% market share.

VRL management considers that the Cinema Exhibition division has a number of competitive advantages including:

- strong market positions in each of its core territories;
- focus on leading location cinemas;
- a strong brand name;
- implementation of industry advancements (such as 3D, Vmax and Gold Class);
- superior cinema design which is distinctive and is provided by an in-house architectural team;
- significant barriers to entry for new participants in relation to planning approvals, location and scale;

- a detailed understanding of the industry through a long involvement in the exhibition market and expertise through VRL's other divisions such as Film Production and Music and Film Distribution; and

- relatively new facilities as a result of strong growth in new theatres in the 1990s and substantial refurbishment programs.

Cinema Exhibition has maintained market share and growth through:

- expansion of value-added services and technologies such as Gold Class, Vmax, Cinema Europa and Vmax 3D;

- marketing to over 750,000 members of the Village Movie Club loyalty program; and

- expansion of alternative content such as sports programming and concert series which provides Cinema Exhibition with avenues for further growth opportunities.

4.2.3 Financial Performance

The Australian operations are the major part of the Cinema Exhibition division and contributed the majority of EBITDA for the 2009 financial year.[14] The operating performance for the Cinema Exhibition division is summarised in the following table:

Cinema Exhibition – Operating Performance (VRL share) ($'000)

	Year ended 30 June		
	2007	**2008**	**2009**
Circuit Admissions ('000)	*40,293*	*40,275*	*41,718*
Number of screens	*700*	*664*	*686*
Ticket revenue	191,844	198,203	236,629
Concession revenue	72,186	72,713	87,701
Advertising/other revenue	7,986	15,525	3,622
Total revenue	**272,016**	**286,441**	**327,952**
EBITDA	**36,830**	**43,230**	**46,300**
Depreciation and amortisation	(19,560)	(18,854)	(19,801)
EBIT	**17,270**	**24,376**	**26,499**
Capital expenditure	14,426	9,700	10,659

Source: VRL
Note: Figures shown above include the discontinued operations in Greece and Czech Republic which were divested in the 2010 financial year

Key comments on the Cinema Exhibition division's earnings performance include:

- a solid performance from Gold Class and Vmax cinemas underpinned profit margins in the 2008 financial year, with blockbuster films such as *Harry Potter and the Order of the Phoenix*, *Transformers* and *The Bourne Ultimatum* boosting admissions;

- a strong performance from the Australian circuit was achieved in the 2009 financial year due to good product availability and 3D Digital Projector rollout;

- the US Gold Class business generated a loss in the 2009 financial year following its commencement; and

[14] Excluding Greece and Czech Republic businesses due to their sale in the 2010 financial year, and the United States business as it was loss making in the 2009 financial year. The contribution of the Singapore business to EBITDA is included as 50% of the net profit after tax of that business.

- the Greek and Czech Republic businesses (which made a combined contribution to Cinema Exhibition EBITDA in the 2009 financial year of $10.3 million) were divested in the 2010 financial year.

The earnings of the Cinema Exhibition division are expected to remain reasonably flat in the 2010 financial year.

4.3 Radio

4.3.1 Background

A predecessor to Austereo was first listed on the ASX in July 1994. At the time, Austereo owned a network of capital city radio stations, including 2DAY FM in Sydney and FOX FM and GOLD 104 FM in Melbourne. In July 1993, VRL had separately acquired the four station Triple M network (2MMM Sydney, 3MMM Melbourne, 4MMM Brisbane and 6MMM Perth) from the receivers of Hoyts Media Limited for $88 million. In August 1993, VRL acquired KAFM Adelaide and it was relaunched as 5MMM in January 1994, completing the Triple M capital city network.

In September 1994, VRL announced a takeover offer for Austereo. Following negotiations, a merger of Austereo and the Triple M network was announced and VRL took its interest in Austereo to 53.4%.

Since 1994, Austereo has continued to grow its core business and in May 1997, VRL privatised Austereo by acquiring the minority interests through a takeover. After the privatisation, Austereo continued to expand its business. In September 1997, Austereo acquired the Perth stations PMFM and 94.5FM from interests associated with Jack Bendat and sold 6MMM to Southern Cross Broadcasting (Australia) Limited ("Southern Cross").

In January 2001, VRL announced its intention to refloat Austereo. Austereo was relisted on the ASX in March 2001 through the issue of 191.4 million shares, representing a 42.5% interest, at a price of $1.85. VRL retained a controlling interest of 57.5% in Austereo. The $315 million raised through the partial float of Austereo was used by VRL to reduce debt.

After the refloat, Austereo diversified its radio broadcasting business internationally, primarily by providing intellectual property and technical services through local partnerships, alliances and arrangements. During this time, Austereo entered into a joint venture arrangement in Malaysia and invested in radio broadcasting businesses in the United Kingdom and Greece.

In January 2003, Austereo announced its intention to divest non-core investments and concentrate on increasing investment in its core broadcasting businesses. Key divestments since January 2003 include:

- in October 2004, Austereo sold its 50% interest in the integrated marketing and communications agency, Simon Richards Group;
- in November 2005, Austereo sold its 50% interest in mcm entertainment to the joint venture partner; and
- in January 2008, Austereo sold its interest in Greek radio station Village 88.3 FM Athens.

Today, Austereo continues to operate its national dual station network in all capital cities of Australia under its Today and Triple M networks, as well as its joint ventures in Canberra and Newcastle, whilst expanding into the digital market. As at 16 October 2009, Austereo had a market capitalisation of approximately $489.6 million.

4.3.2 Overview of the Radio Industry

Structure

Australia's radio broadcasting industry consists of a mix of privately owned commercial stations, government owned stations (operated by the ABC) and the Special Broadcasting Service ("SBS"), as well as community not-for-profit stations broadcasting on both the AM and FM bands. Only the commercial stations sell significant advertising time. While the government owned and community stations do not compete directly with commercial broadcasters, they do impact on audience levels.

There are currently more than 250 commercial radio stations broadcasting in Australia, although the majority of these operate in regional markets. The number of commercial radio stations in each of the five largest metropolitan centres in Australia (which dominate advertising revenue) is shown in the following table:

Analysis of Commercial Radio Stations

Market	% of Radio Advertising Revenue	Number of AM stations	Number of FM stations	Total
Sydney	31%	8	6	14
Melbourne	30%	9	6	15
Brisbane	16%	6	6	12
Adelaide	10%	6	5	11
Perth	13%	6	5	11
Total Five City Metropolitan	**100%**	**35**	**28**	**63**

Source: Deloittes Radio Revenue market share statistics FY09, Neilsen radio survey #6 2009

Commercial radio signals are broadcast on both the AM and FM bands. The FM band was introduced for commercial radio in 1980 and offers a number of technical advantages in terms of sound quality and reliability. The FM band is therefore attractive for radio stations with a music based format. It is less important for those stations with a news/talk format. Music radio stations that have remained on the AM band are generally oriented towards "hits and memories" or "easy listening" formats that target the 40-plus demographic.

FM radio stations also generate a significantly larger proportion of advertising revenue than AM radio stations.

Commercial Radio Participants

Since deregulation of the radio broadcasting industry in 1992, significant consolidation of the industry has occurred with the top four operators now having a significant share of licences and advertising revenue through the development of national networks. The top four operators are Austereo, DMG Radio Holdings Pty Ltd ("DMG"), ARN and Fairfax Media Limited ("Fairfax"). Macquarie Media Group Limited ("Macquarie Media") is Australia's leading regional media provider.

Metropolitan Commercial Radio Networks		
Owner	**Location**	**Radio Stations**
Austereo	Sydney	2DAY FM, Triple M
	Melbourne	FOX FM, Triple M
	Brisbane	B105 FM, Triple M
	Adelaide	SA FM, Triple M
	Perth	92.9 FM, MIX 94.5 FM
	Canberra	Mix 106.3 FM[15], FM104.7[15]
	Newcastle	KO FM[16], NX FM[16]
DMG	Sydney	Nova 96.9 FM, Vega 95.3
	Melbourne	Nova 100 FM, Vega 91.5
	Brisbane	97.3 FM[17], Nova
	Adelaide	FIVEaa AM, Nova 919 FM
	Perth	Nova 93.7 FM[17]
ARN	Sydney	Mix 106.5 FM, WSFM 101.7 FM, Edge 96.1 FM
	Melbourne	Mix 101.1 FM, Gold 104.3 FM
	Brisbane	4KQ 693 AM, 97.3 FM[17]
	Adelaide	Cruise 1323 AM, Mix 102.3 FM
	Perth	Nova 93.7 FM[17]
	Canberra	Mix 106.3 FM[15], 104.7 FM[15]
Fairfax Media	Sydney	2UE
	Melbourne	3AW, Magic 1278
	Brisbane	4BC, 4BH
	Perth	6PR, 96fm

Source: IBIS Report, Radio Services in Australia, P9121, July 2009

DMG is 100% owned by listed United Kingdom media group, Daily Mail and General Trust plc. DMG is a relatively new entrant to the Australian commercial radio broadcasting market, having commenced operations in October 1996 with the purchase of regional broadcasting group Broadcast Media Group and Adelaide AM radio station FIVEaa. DMG's strategy has been to acquire existing stations and networks as well as create new commercial radio stations through acquiring new licences at auctions. DMG introduced significant competition in the FM capital city broadcasting market through launching its national network of Nova stations in 2002. In September 2004, DMG sold 57 regional radio stations to Macquarie Media Group, leaving DMG with the Nova radio station network in Sydney, Melbourne and Adelaide, FIVEaa in Adelaide, Hot 91 on the Sunshine Coast in Queensland, Star 104.5 on the New South Wales Central Coast and 50% of Nova Perth and 97.3 FM in Brisbane. DMG also purchased a number of second FM licences in the metropolitan markets as they were auctioned over the period from October 2003 to August 2004. In particular, the licences purchased for Melbourne and Sydney were utilised to establish DMG's Vega brand.

ARN is a joint venture between APN and Clear Channel International. Clear Channel, with its partners, operates more than 250 radio stations in Mexico, Australia, New Zealand and Europe. ARN has a dual brand strategy with a MIX and Classic Hits stream operating in most Australian capital cities. MIX is a contemporary format aimed at males and females aged 25-44 and Classic Hits is targeted at 35-54 year old males and females.

In November 2007, Fairfax acquired some of the key assets of Southern Cross, including radio stations 2UE in Sydney, 3AW and Magic 1278 in Melbourne, 4BC and 4BH in Brisbane, 6PR and 96fm in Perth, as well as Satellite Music Australia. These stations

[15] Austereo and ARN each own 50% of these Canberra radio stations.

[16] Austereo and Macquarie Media Group each own 50% these Newcastle radio stations.

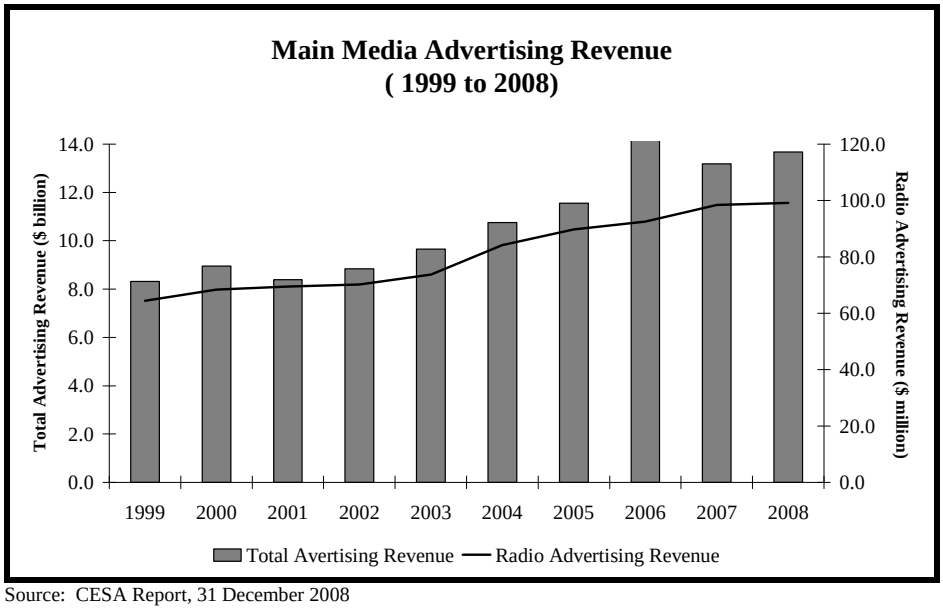
[17] ARN and DMG each own 50% of Brisbane FM licence 97.3 FM and Perth FM licence Nova 93.7. 97.3 FM is operated by ARN and Nova 97.3 is operated by DMG.

provide Fairfax with the only national talk radio network covering Australia's major capital cities, primarily providing a mix of news, talk, opinion and sport.

Macquarie Media is Australia's leading regional media provider, with 68 commercial radio stations in 38 licence areas in Queensland, New South Wales, Victoria, Tasmania, South Australia and Western Australia, sourcing the majority of its advertising revenue from local advertisers. In 2004, Macquarie Media purchased 57 regional radio stations from DMG after having previously purchased 36 stations from RG Capital Radio Limited ("RG Capital"). In November 2007, Macquarie Media completed the purchase of Southern Cross. Under the deal, Macquarie Media was required to on-sell Southern Cross' metropolitan radio stations to Fairfax.

Advertising Market

Commercial radio broadcasting in Australia generates almost all of its revenue from advertising, competing with other forms of media including newspapers, magazines, print media, television, outdoor and cinema, as well as new digital media, such as websites, mobile telephones and podcasts. During the ten year period between 1998 and 2008, Australian main media advertising revenues have grown at an average rate of 7.7% per annum to $13.7 billion in the year ended 31 December 2008:



Source: CESA Report, 31 December 2008

In the year ended 31 December 2008, commercial radio accounted for 7.3% of the Australian main media advertising market, representing total advertising revenues of $991.7 million. The Australian radio advertising market has grown each year over the last ten years, at an average rate of 5%.

Radio advertising revenue declined by 3.28% in the 2009 financial year and is expected to continue to fall in the short term. Advertising expenditure is dependent upon economic activity. There is also competition from existing and emerging digital media technologies, such as the internet, which are taking a growing share of total advertising expenditure. The radio industry is aiming at capturing some of the growth experienced by emerging digital media technologies through cross-platform initiatives.

Regulation

Commercial radio stations are operated under licences granted by the Commonwealth Government and regulated by the ACMA. ACMA was established on 1 July 2005 by the merger of the Australian Broadcasting Authority and the Australian Communications Authority. The ACMA is responsible for the regulation of broadcasting, the internet, radiocommunications and telecommunications. The Broadcasting Services Act 1992 (Cth) also makes provision for the granting of licences for the operation of public radio stations.

The Broadcasting Services Amendment (Media Ownership) Act 2006 (Cth) came into force in February 2007. This Act abolished all media specific foreign ownership rules, although the approval of the Treasurer will continue to be required prior to any foreign purchase of media assets. In addition, cross media ownership rules were abolished, provided that the number of media groups is four in regional markets and five in the capital cities. However, media mergers are still subject to the provisions of the Trade Practices Act 1974 (Cth). The power to decide on the issuing of new broadcasting licenses has been removed from the ACMA and vested with the Commonwealth Government.

In 2004, four new licences were auctioned and all were acquired by DMG, which utilised the Melbourne and Sydney licenses to establish its Vega brand. It is understood that the Commonwealth Government has no intention of issuing additional metropolitan licences until 2015 at the earliest.

Developments – Digital Radio Broadcasting

Digital radio services have recently been introduced into Australia. The digital format for radio offers many consumer benefits including pause, rewind and record functionality, the ability to transmit visual information, and digital sound quality. In addition to these benefits, emerging digital technologies also allow radio broadcasters to deliver their content across multiple platforms, including conventional radio receivers, mobile phones (through 3G network capabilities) and computers.

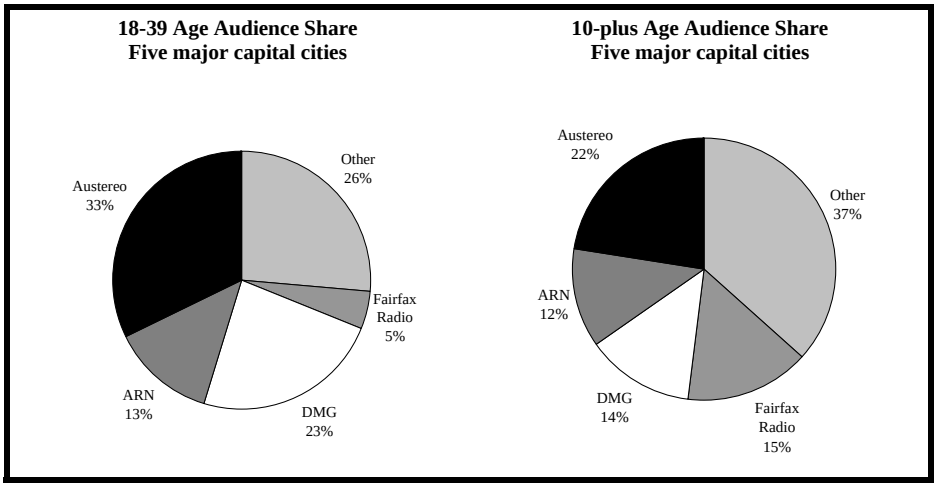
Digital radio was declared to commence on 1 July 2009 in the metropolitan licence areas. The official launch of digital radio was celebrated on 6 August 2009, with "Radio United" outside broadcast events in each State. Digital radio services are now offered by commercial radio broadcasters and national broadcasters. The technology platform for digital radio broadcasts is Digital Audio Broadcasting Plus ("DAB+"). Digital radio broadcasting has not yet commenced in regional licence areas.

4.3.3 Overview of Operations

Overview

Austereo operates two distinct radio networks, Today and Triple M, with stations in all mainland Australian State capital cities, two leading joint venture stations in Newcastle and Canberra, and Australia's first national commercial digital radio network, Radar. Austereo also has a minor investment in the United Kingdom and a consultancy arrangement in Malaysia.

Austereo has clear market leadership at a national level with 33% of the 18-39 year old audience in Australia's five largest metropolitan cities combined and 22% of the overall audience:



Source: Nielsen Media Research, Survey #6 2009

The target demographic of both the Today and Triple M networks is the 18-44 year old listener, although the core demographic is the 25-39 age group. The Today network targets a female audience and the Triple M network targets a male audience. Austereo's radio stations are the first and second ranked FM stations in the 25-39 year old demographic in each of the five major capital city markets. In addition, Austereo's Today network has the top rating FM station overall in three of the five major capital city markets. The position of the Triple M network is weaker, rating second in the less lucrative markets of Brisbane and Perth, but second or third in the more important markets of Sydney, Melbourne and Adelaide.

The Today network broadcasts a number of programs nationally, which are a key factor in the network's strong results:

- **Hamish & Andy** – drive time show broadcast nationally 4pm-6pm weeknights, attracting 1.5 million listeners and rated the top drive time show nationally; and

- **The Hot 30 Countdown** – Australia's biggest nightly countdown, broadcast nationally on weeknights to over one million listeners.

The Triple M network broadcasts Roy & HG nationally on Monday and Friday evenings in the drive time slot.

Austereo has a business strategy of market leadership. Austereo stations, through their leading ratings in key demographics, their ability to deliver advertising on a national basis and their "full service" sales approach, together with Austereo's market leadership position in the increasingly important cross-platform offering, have been able to command substantial advertising rate premiums.

Austereo is particularly focused on improving the performance of the Triple M network, which has suffered the greatest decline in rating since the launch of DMG's Nova and Vega radio networks. Austereo continues to work on the reinvigoration of the Triple M network, with a focus on investing in the discovery and development of new talent. While Austereo believes that this strategy will be successful in lifting the Triple M network's ratings, there is a risk that any improvement will be in part at the expense of the Today network.

Today Network

Sydney

2DAY FM is the second highest rating radio station overall (highest rating FM station overall with 10.7%) in the Sydney radio market. The top position is held by 2GB, an AM station with a talkback format.

In addition to Hamish & Andy and The Hot 30 Countdown, the success of 2DAY FM is attributable to The Kyle and Jackie O Show, the number one FM breakfast show in Sydney, with 9.8%. The station now has a cumulative audience of over one million listeners, helping to maintain its number one FM position.

Melbourne

FOX FM is Austereo's most profitable station and the third rated overall radio station in Melbourne behind AM talkback stations 3AW and ABC 774. However, FOX FM is the dominant FM station and the clear leader in the key 25-39 demographic. 3AW and ABC 774 have insignificant ratings in the 25-39 and younger demographics, but lead the 40-plus demographics.

The Matt & Jo Show is the top rating FM breakfast show in Melbourne, with 12.5%.

Brisbane

B105 is the second rated station overall in Brisbane behind NOVA 106.9 and second rated station in the key 25-39 demographic behind NOVA 106.9. B105 had traditionally had a commanding lead in overall ratings prior to the launch of NOVA 106.9 and New97.3 FM.

Adelaide

SA FM consistently wrestles for overall top rating status with FIVEaa, an AM talkback station focusing on entertainment, opinions, sport and news. SA FM is the clear market leader in the 25-39 demographic, achieving ratings as high as 21%.

Perth

92.9 FM competes with Fairfax Media's 96fm for the number two position, with Austereo's Mix94.5 FM the dominant overall radio station in Perth. Leadership of the 25-39 demographic was shared between Austereo's two stations prior to the launch of NOVA 93.7. 92.9 FM is generally the third rating station in this demographic.

Triple M Network

Sydney

Triple M has suffered from a ratings decline over the last two years, both overall and in its core 25-39 demographic. This decline is the result of several changes to its program directors, its breakfast talent and its music format.

Recently, a new breakfast show, "The Grill Team", has been introduced, as well as a new drive time team to complement Roy and HG in an effort to reinvigorate Triple M Sydney.

Melbourne

Triple M Melbourne is currently at eighth position in the overall ratings. However, Triple M remains fourth behind FOX FM in the key 25-39 demographic.

"Hot Breakfast", a new breakfast team hosted by Melbourne identity Eddie McGuire, is expected to boost ratings performance.

Brisbane

Triple M Brisbane has been a solid and consistent performer for Austereo, ranking third behind NOVA 106.9 and B105 FM in the key 25-39 demographic. Top position overall in the Brisbane radio market is regularly contested by Austereo's B105 and Triple M, NOVA 106.9 and New97.3 FM.

Adelaide

Triple M Adelaide ranks fifth overall and in the 25-39 demographic.

Perth

Mix 94.5 dominates the Perth radio market, ranked number one overall, with top position in breakfast, morning and afternoon time slots.

Joint Venture Operations

Canberra

Austereo owns (in 50:50 joint venture with ARN) both of the top rating commercial radio stations in the Canberra market. FM 104.7 is the top rating station in Canberra overall, with a 20.5% share, dominating the 18-39 demographic. MIX 106.3 FM is the third highest rating station overall (after FM 104.7 and ABC 666), with a 16% market share. FM 104.7 has an 18-39 focus with a male orientation. MIX 106.3 FM has an 18-39 focus and a female orientation.

Newcastle

Newcastle is the largest non-capital city radio market in Australia. NX FM is a female-skewed station aimed at the under 30s market. It is the overall ratings leader, achieving its highest ratings amongst listeners aged 24 and younger, but is also the highest rating station in the 25-39 demographic. KO FM is focused on the 30-plus market, with a light/classic rock format. It is the second highest rating station overall, the second highest rating station in the 25-39 demographic and the highest rating station in the 40-54 demographic.

International Operations

United Kingdom

In November 2000, Austereo acquired an interest in UKRD Group Limited ("UKRD"), a regional radio operator in the United Kingdom.

Austereo currently has a 4.38% economic interest in UKRD.

Austereo recently announced that, given the prevailing economic conditions in the United Kingdom, it has fully written down its investment in UKRD, with an after tax impact of $3.8 million in the 2009 financial year.

Malaysia

The Malaysian radio industry is highly regulated, with the Malaysian government issuing licences and prohibiting direct foreign ownership of radio stations. In 1998, Austereo entered into a joint venture (Airtime Management & Programming Malaysia ("AMP")) with Malaysian group Usaha Tegas to provide services relating to the development of five

radio networks in Malaysia. Austereo's role has been to construct the radio premises, establish the radio formats, launch the five national networks, provide marketing expertise and provide senior operational executives. In return for the provision of these services, Austereo receives an agreed fee.

Austereo Interactive

Austereo Interactive is responsible for continuing Austereo's long-term expansion into digital media. Austereo's move into digital platforms is wide ranging and includes alternative positioning of traditional radio content, including online streaming and podcasting, as well as providing unique content across its websites.

Austereo is the industry leader in achieving cross-platform integration of content and sales. In the 2009 financial year, over 30% of Austereo's radio campaigns were radio/interactive cross-platform aligned. Austereo's websites are averaging around 1 million unique browsers a month, driven by growth in the downloading of video content (2.5 million minutes of footage watched) and podcasts (average monthly downloads of 2.6 million).

In addition to simulcasting its established FM brands, Austereo led the industry with the launch of Radar Radio, Australia's first commercial digital radio station, in December 2008. Radar Radio is dedicated to undiscovered artists and their music and is now streaming live online. Austereo launched Pink Radio in May 2009 to coincide with the launch of digital radio in Australia and pop singer Pink's "Funhouse" tour.

4.3.4 Financial Performance

The financial performance for Austereo for the three years ended 30 June 2009 is summarised below:

Austereo - Financial Performance ($'000)			
	Year ended 30 June		
	2007	2008	2009
Total revenue	**250,539**	**257,921**	**251,870**
EBITDA	**87,990**	**94,352**	**87,419**
Depreciation and amortisation	(7,236)	(7,931)	(7,788)
EBIT	**80,754**	**86,421**	**79,631**
Net interest expense	(13,833)	(16,169)	(14,337)
Operating profit before tax	**66,921**	**70,252**	**65,294**
Income tax expense	(20,469)	(21,428)	(20,083)
Operating profit after tax[18]	**46,452**	**48,824**	**45,211**
Material items (net of tax)	-	-	(3,800)
Profit after tax attributable to Austereo shareholders	**46,452**	**48,824**	**41,411**
Statistics			
Basic earnings per share ($)	*0.1275*	*0.1393*	*0.1198*
Dividends per share ($)	*0.0790*	*0.0920*	*0.1000*
Dividend payout ratio (%)	*61.3%*	*66.1%*	*76.5%*
Amount of dividend franked (%)	*100.0%*	*100.0%*	*100.0%*
Total revenue growth (%)	*6.6%*	*2.9%*	*(2.3%)*
EBITDA growth (%)	*13.3%*	*7.2%*	*(7.3%)*
EBITDA margin (%)	*35.1%*	*36.6%*	*34.7%*
Interest cover (times)[19]	*5.8x*	*5.3x*	*5.6x*

Source: VRL and Austereo Annual Reports and Grant Samuel analysis

Key items affecting Austereo's financial performance since 2007 are summarised below:

- Austereo's total audience leadership was maintained in the 2007 financial year. The strong ratings results were characterised by the launch of major new programs, and the growth of existing programs. This in turn resulted in both the Today and Triple M networks improving their revenue share, accompanied by increased advertising rates across both networks and the high retention rate of clients;

- during the 2008 financial year, Austereo achieved 100% retention of its top twenty advertising clients. In addition, Austereo's two largest media buying clients both increased their spends by over 10% across the financial year. These factors, combined with an increase in advertising rates and continued cost management initiatives, resulted in an improved EBITDA margin of 36.6%. During the period, Austereo also began to realise the potential of the combination of radio and online technologies, both as compatible media and as new audience platforms. During the period, Austereo sold its interest in its Greek radio operations, Village 88.3 FM; and

- the 2009 financial year was difficult, with the overall results dampened by market conditions and ratings underperformance of Triple M in Sydney and Melbourne, despite the Today network's sales exceeding those of the previous financial year. The

[18] All figures disclosed to derive operating profit after tax exclude discontinued operations and material items, which are shown separately.

[19] Interest cover is EBIT divided by net interest.

expanding online and interactive component of Austereo's business grew rapidly during the year, with over 30% of Austereo's radio campaigns being radio/interactive cross-platform aligned. These innovative, non-traditional revenue sources accounted for over 11% of total sales for the period. Additional "Other Revenue" items included consultancy fee revenue relating to the ongoing consultancy services provided to AMP Malaysia and management fees received from Austereo's Newcastle radio stations. During the year, Austereo fully wrote down its investment in UKRD, with an after tax impact of $3.8 million. VRL also provides Austereo with ongoing corporate services including company secretarial and corporate records maintenance, treasury services and tax support at an agreed annual fee of $250,000 per annum.

Grant Samuel has had access to Austereo's forecast for the year ending 30 June 2010 but at the request of the directors of VRL the forecast is not set out in this report due to commercial sensitivity.

4.3.5 Financial Position

The financial position of Austereo as at 30 June 2008 and 30 June 2009 is summarised below:

Austereo - Financial Position ($'000)		
	As at 30 June 2008	**As at 30 June 2009**
Trade debtors	49,387	50,129
Creditors and employee provisions	(51,402)	(49,817)
Provision for income tax	(9,209)	(5,134)
Net working capital	**(11,224)**	**(4,822)**
Property, plant and equipment	32,248	41,048
Investments accounted for using the equity method	6,419	7,113
Available for sale investments	4,389	1,402
Deferred tax liabilities (net)	(24,388)	(23,011)
Other	(1,361)	(6,951)
Net tangible assets	**6,083**	**14,779**
Intangible assets – radio licences[20]	865,246	865,246
Total funds employed	**871,329**	**880,025**
Cash and deposits	193	691
Bank loans, other loans and finance leases	(208,000)	(220,100)
Net borrowings	**(207,807)**	**(219,409)**
Equity attributable to Austereo shareholders	**663,522**	**660,616**
Statistics		
Shares on issue at period end('000))	*349,690*	*344,799*
Net assets per share($)	*1.90*	*1.92*
NTA[21] per share($)	*(0.58)*	*(0.59)*
Gearing[22]	*23.8%*	*24.9%*

Source: Austereo Annual Reports and Grant Samuel analysis

[20] Radio licences are recorded by Austereo at $865.2 million, but are recorded by VRL at $453.2 million.

[21] NTA is net tangible assets, which is calculated as net assets less intangible assets.

[22] Gearing is net borrowings divided by net assets plus net borrowings.

The following should be noted in relation to Austereo's financial position as at 30 June 2009:

- the major balance sheet item of Austereo is radio licences valued at $865.2 million (which VRL records at $453.2 million). This value is supported by an independent valuation which is commissioned annually and updated six monthly;
- the investments balance represents Austereo's investments in associates of $7.1 million (radio transmitter businesses and Austereo's 50% interest in the Newcastle joint venture). During the 2009 financial year, Austereo's investment in UKRD was fully written down, resulting in an after tax impact of $3.8 million in the 2009 financial year;
- assets held for sale relates to ownership interests in digital infrastructure joint venture companies and minor investments in M Net and All Asia Radio Technologies; and
- net debt (borrowings less cash) as at 30 June 2009 was approximately $219 million. Austereo is geared at a relatively low level at around 25%.

4.3.6 Cash Flow

Austereo's cash flow for the three years ended 30 June 2009 is summarised below:

Austereo - Cash Flow ($'000)

	Year ended 30 June		
	2007	**2008**	**2009**
EBITDA	**87,990**	**94,352**	**87,419**
Changes in working capital and other adjustments	(49,088)	26,292	(16,477)
Capital expenditure (net)	(13,280)	(11,380)	(16,577)
Operating cash flow	**25,622**	**109,264**	**54,365**
Tax paid	(15,580)	(21,755)	(24,551)
Net interest paid	(14,615)	(15,380)	(14,483)
Dividends paid	(28,488)	(32,257)	(34,595)
Acquisitions (net of cash)	-	(100)	(761)
Disposals	6	6,389	8
Loans to other entities (net)	3,935	1,111	3,189
Borrowings (net)	44,006	(24,472)	12,100
Share buybacks	(56,286)	(1,310)	(6,866)
Other	-	(18)	(8)
Net cash generated (used)	**(41,400)**	**21,472**	**(11,602)**
Net cash (borrowings) – opening	*(187,879)*	*(229,279)*	*(207,807)*
Net cash (borrowings) – closing	*(229,279)*	*(207,807)*	*(219,409)*

Source: Austereo annual reports and Grant Samuel analysis

Austereo generates strong operating cash flows from its business operations.

Capital expenditure has increased significantly since the 2007 year in line with Austereo's investment and upgrade plan. In particular, Austereo has recently fitted out its new Melbourne premises and developed new on-air studios in preparation for digital broadcasting. On an ongoing basis, annual capital expenditure is expected to be in the range of $7–9 million.

Austereo has implemented share buyback schemes during the last five financial years, in an effort to return excess cash to shareholders. Approximately 4.9 million Austereo shares were bought back during the 2009 financial year for a total cost of $6.9 million at an average price of $1.40 per share.

4.3.7 Taxation Position

Under the Australian tax consolidation regime, Austereo and its wholly owned Australian resident entities have elected to be taxed as a single entity.

At 30 June 2009, Austereo had no carried forward income tax losses. Austereo had gross carried forward Australian capital losses of approximately $4 million, which are not recorded in the balance sheet.

At 30 June 2009, Austereo had $56.0 million accumulated franking credits.

4.3.8 Capital Structure and Ownership

As at 31 August 2009, Austereo had 344,798,708 ordinary shares on issue.

As at 31 August 2009, VRL has a 52.52% controlling interest in Austereo. There are four other substantial shareholders, all of which are institutional investors:

Austereo – Other Substantial Shareholders as at 31 August 2009

Shareholder	Number of Shares	Percentage
Commonwealth Bank of Australia Limited[23]	43,746,372	12.60%
452 Capital Pty Ltd	27,435,892	7.90%
Perpetual Limited and subsidiaries	26,494,955	7.68%
DFA Group	17,241,609	5.00%

Source: Austereo

Despite VRL's 52.52% controlling interest, Austereo shares are relatively widely held, with 1,390 registered shareholders as at 4 September 2009.

[23] Includes interest of 452 Capital Pty Ltd.

4.3.9 Sharemarket Performance

Share Price History

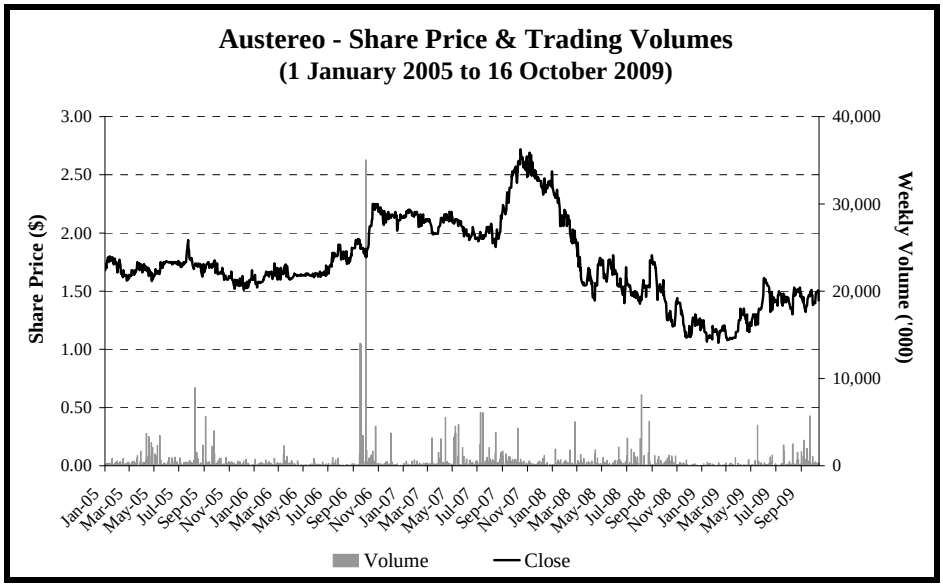
A summary of the share price and trading history of Austereo since 1 January 2005 is set out below:

Austereo – Ordinary Share Price History

	Share Price ($)			Average Weekly Volume ('000)	Average Weekly Transactions
	High	Low	Close		
Year ended 31 December					
2005	1.94	1.51	1.60	2,179	330
2006	2.25	1.53	2.13	2,783	454
2007	2.72	1.88	2.40	2,572	731
2008	2.53	1.10	1.25	1,943	1,022
Quarter ended					
31 March 2009	1.25	1.06	1.16	424	148
30 June 2009	1.62	1.15	1.41	1,042	471
30 September 2009	1.53	1.30	1.46	2,753	1,781
Week ended					
2 October 2009	1.51	1.38	1.38	1,772	1,581
9 October 2009	1.49	1.40	1.49	1,123	1,864
16 October 2009	1.51	1.42	1.42	954	1,235

Source: IRESS

The following graph illustrates the movement in the Austereo share price and trading volumes since 1 January 2005:



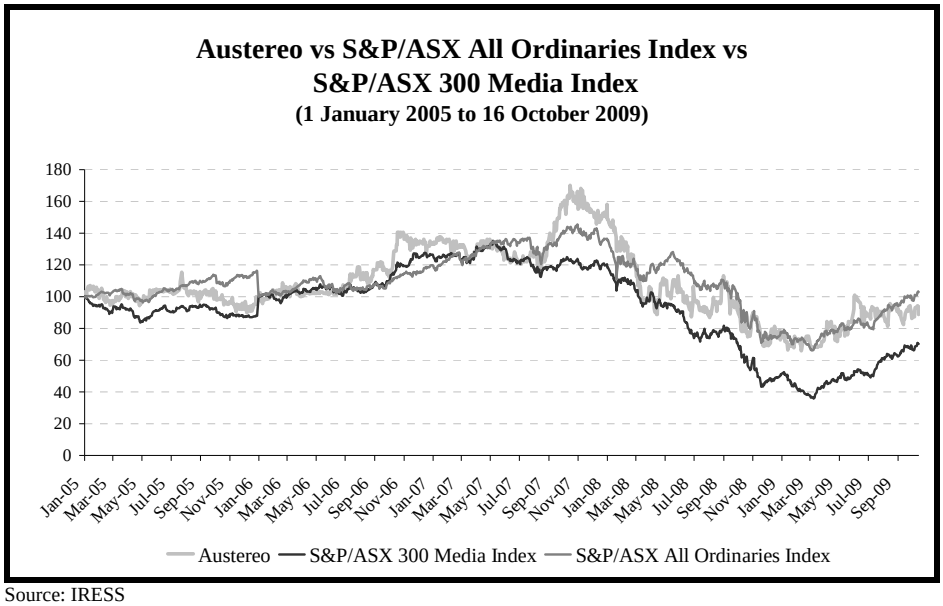
Source: IRESS

Austereo's share price rose steadily between January 2006 and August 2006. On 28 August 2006, the share price and trading volumes spiked, following the announcement of an on-market share buyback of 5% of the issued capital of Austereo. Following the announcement in August 2007 of the company's strong trading results for the 2007

financial year, Austereo's share price climbed steadily, reaching a high of $2.72 in October 2007. During late 2008 and early 2009, the Austereo share price declined in line with the general sharemarket.

Relative Performance

The following graph illustrates the performance of Austereo shares since 1 January 2005 relative to the S&P/ASX All Ordinaries Index and the S&P/ASX 300 Media Index:



Source: IRESS

The relative performance graph illustrates that Austereo shares have generally outperformed the S&P/ASX 300 Media Index, reflecting its strong position in the radio market. Austereo is not included in any ASX indices.

4.4 Film Distribution

4.4.1 Overview of the Film Distribution Industry

The film distribution market in Australia encompasses the distribution of theatrical product for cinema exhibition, DVD and Blu-ray retail and rental, pay television and free-to-air television and distribution to digital retailers.

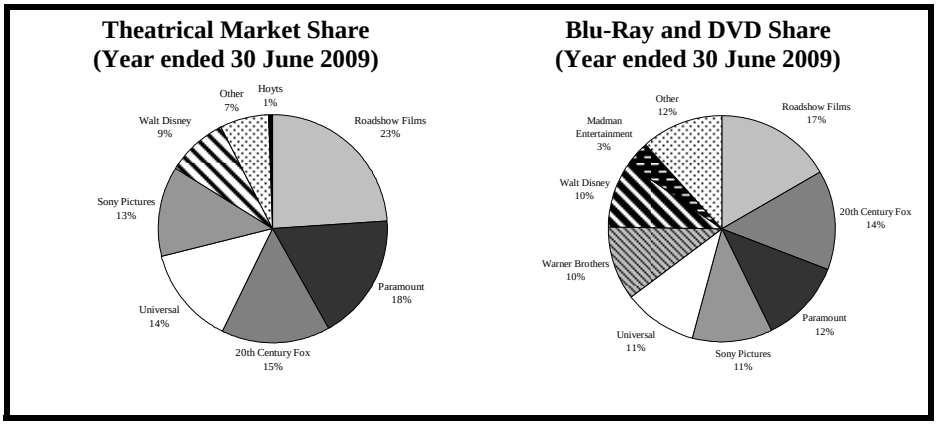
The majority of distribution arrangements are royalty based and as such distribution income is essentially driven by two factors:

- growth in population and disposable income; and
- film performance and the quality of the products released by the production houses.

The home entertainment market is driven by further factors, including:

- growth in sales of Blu-ray and DVD players and the availability of recently released feature films on DVD; and
- demand for non-film product such as back catalogue TV series, children's programming and sports content.

A number of major distributors dominate the local market, especially the market for new Australian and international theatrical releases. The major distributors of theatrical product are also leading participants in the market for distribution of home entertainment products on Blu-ray and DVD. VRL's Film Distribution division is the only Australian company in the top five global distributors:

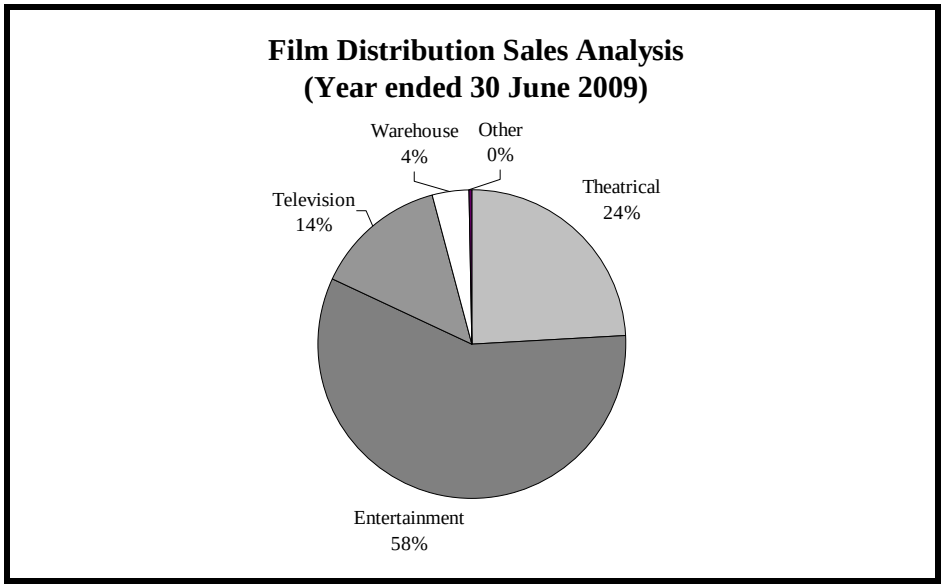


Source: VRL

Distribution to pay and free-to-air television represents a small but important component of industry revenues. The penetration rate of pay television in 2007 was reported to be 27% of Australian households. Continued growth in subscriber numbers and the development of digital interactive services, pay-per-view and video-on-demand products are expected to be the future drivers of pay television distribution revenues.

4.4.2 Overview of Operations

VRL's Film Distribution division occupies the number one film distribution market position in Australia and New Zealand. The Film Distribution division is comprised predominantly of the activities of Roadshow Distributors. Roadshow Distributors operates under the trading name "Roadshow Films". The division distributes motion pictures to cinemas, and motion pictures, documentaries and other filmed entertainment to a variety of users including pay and free-to-air television providers, third party digital retailers and DVD and Blu-ray retailers and rental businesses. A segment breakdown of sales for the 2009 financial year is depicted below:



Source: VRL

Prior to July 2007, Roadshow Distributors was a 50/50 joint venture with Greater Union. Village purchased Greater Union's stake in the business from Amalgamated for $95 million net of shareholder loans effective from 25 July 2007.

Roadshow Films has output arrangements with production companies including Warner Bros., Village Roadshow Pictures, Weinstein, Relativity, the BBC, the ABC, FremantleMedia and Hopscotch. Cinema distribution agreements are in place with Village Cinemas, Hoyts Cinemas, Greater Union, BCC, Readings and Palace, and long term output contracts are in place with Channel 9, Sky TVNZ, The Movie Network Channel and Foxtel. Roadshow Films owns The Movie Network Channels in equal share with Warner Bros., Disney and MGM.

The Film Distribution division has its principal operations in Australia and New Zealand. Distribution activities are also carried out in Singapore, but under the Cinema Exhibition business. Film Distribution consists of four main sub-divisions. These are:

- **Roadshow Film Distributors**: which distributes theatrical movies to cinema in Australia and New Zealand. Roadshow Film Distributors holds exclusive distribution rights for movies produced by Village Roadshow Pictures and also distributes theatrical releases for companies such as Warner Bros., Weinstein and Relativity as well as independent production houses;

- **Roadshow Entertainment**: the leading independent distributor of DVDs and Blu-ray disks to retail and rental chains. Roadshow Entertainment has the exclusive rights to distribute DVDs and Blu-ray disks for Village Roadshow Pictures, Weinstein and international and Australian independent producers, as well as for the ABC, BBC and FremantleMedia catalogues;

- **Roadshow Television**: which distributes motion pictures, documentaries and other filmed entertainment to pay television and free-to-air television in Australia and New Zealand. The Movie Network is an equal joint venture between Roadshow Television, Warner Bros., Disney and MGM to distribute the latest movie releases as well as classic re-runs to Australian pay television networks via 7 channels plus 3 high definition channels; and

- **Roadshow Digital**: which distributes motion pictures, documentaries and other filmed entertainment to third party digital retailers and on-demand providers.

The key strengths of the Film Distribution division include:

- exclusive rights under long term contracts with a number of leading production companies;
- long term contracts with 'blue-chip' customers such as TV stations;
- exposure across the whole distribution process to utilise all avenues of rights owned by the division;
- a wide range of products in the portfolio, giving a diverse revenue base; and
- economies of scale as a result of being Australia's largest replicator of DVDs.

On the other hand, there are a number of challenges currently facing the Film Distribution division, including:

- the medium term implications of piracy and the internet on the distribution industry;
- a slow down in consumer spending resulting in the decline of the home entertainment market;
- the impact of changes in retailer inventory strategies as a result of the global financial crisis;
- the impact of the global financial crisis on the volume of product for distribution in coming periods; and
- the recent loss of a major distribution contract.

VRL's Film Distribution division relies significantly on the Cinema Exhibition and Film Production and Music divisions and the strength of the relationship with Warner Bros. and the success of new products.

4.4.3 Financial Performance

The performance of the Film Distribution division is summarised in the following table:

Film Distribution – Operating Performance ($'000)			
	Year ended 30 June		
	2007	2008	2009
Sales revenue	30,948	422,922	447,854
EBITDA	15,034	55,724	57,021
EBIT	13,625	41,412	44,708

Source: VRL
Note: Figures shown above include the discontinued operations in Greece which were divested in the 2010 financial year

Key comments on the Film Distribution division's earnings performance include:

- Film Distribution's sales growth over the past three years has been driven primarily by the strong growth of the DVD market, although this market now appears to be in decline;

- the 2007 financial year was challenging for the Film Distribution division, with poor product from some production houses resulting in a decline in earnings margins;

- the remaining 50% of the Roadshow Distributors was purchased from Greater Union effective 25 July 2007;

- the strong EBITDA growth in the 2008 financial year was due to strong title releases in both the theatrical and DVD markets, and cost management. This growth in EBITDA did not translate to growth in EBIT due to an increase in amortisation in the 2008 financial year as a result of the uplift in value of Roadshow Distributors' film distribution rights as a result of the acquisition of the remaining 50% share in Roadshow Distributors; and

- earnings margins improved in the 2009 financial year due to decreases in costs (e.g. lower advertising costs as a percentage of sales).

4.5 Film Production and Music

4.5.1 Overview of the Film Production and Music Industries

Film Production

The international film industry is dominated by seven Hollywood-based "major studios": Walt Disney, Paramount, Warner Bros., Universal, Twentieth Century Fox, Sony (Columbia) and MGM/UA. The major studios (other than MGM/UA) are all now subsidiaries of larger media and entertainment focused conglomerates. In recent years, "mini-major" production companies such as Dreamworks and Pixar (wholly owned by Walt Disney) have played an increasingly important role in the production of feature films.

The industry is divided into two major activities, production and distribution, both of which are dominated internationally by the major studios. Distribution involves the exploitation of films by theatrical exhibition, home entertainment (rental and sale), pay and free-to-air television, merchandising and sales to other markets. Films are commonly released first in the North American market place before international release, although the gap between North American and international release is generally shortening.

Film production involves the following four major activities:

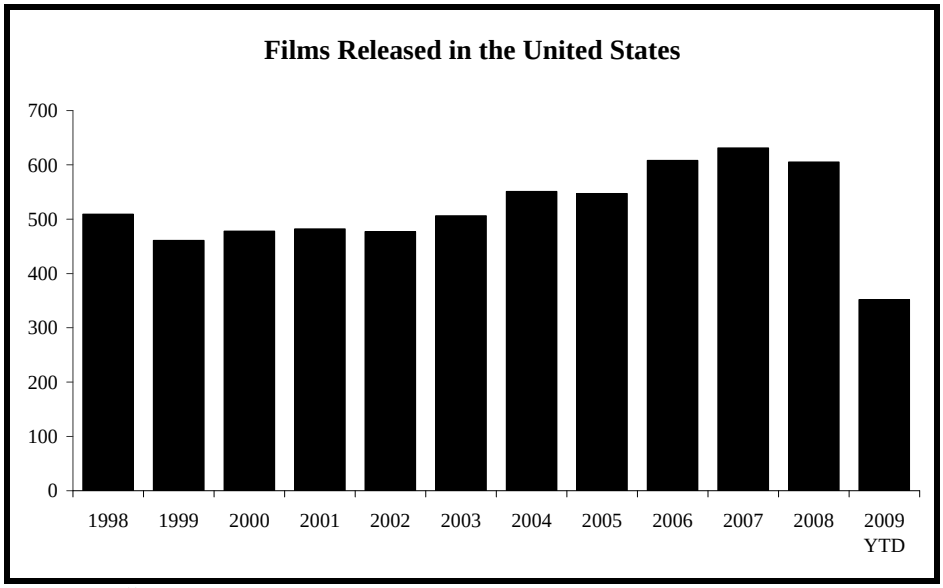
- development (concept acquisition, screenplay development, securing of key talent including director and principal cast);

- pre-production (securing of production facilities and personnel, finalisation of production schedule and budget, selection of locations and building of sets);

- production (principal photography); and

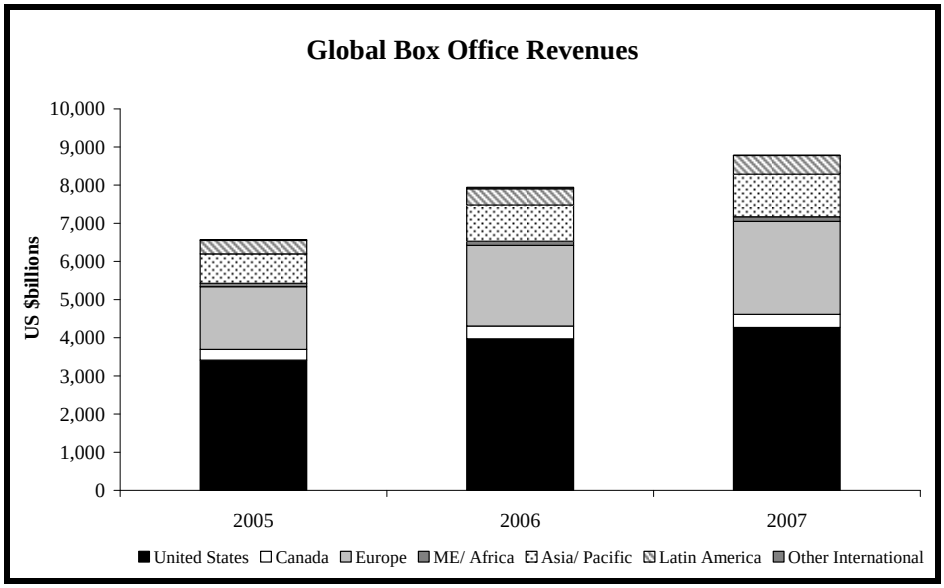
- post-production (editing, creation of special effects, recording of musical score, sound editing and creation of the completed "final cut").

The impact of the global financial crisis and the lack of availability of credit on the film production industry can be seen below, with the decline in the number of films released in both 2008 and in 2009 to date:



Source: Box Office Mojo

However, average film budgets and revenue have grown strongly, with the industry increasingly focusing on the production of "blockbuster" films. This has been reflected in growing film revenues, both in the North American market and internationally:



Source: VRL

Music

After a period of intense consolidation in the 1990s, the global music industry is now dominated by four major players:

- Vivendi SA, a French media conglomerate that owns Universal Music Group ("UMG"), the biggest player on the international music scene;

- Sony Entertainment ("Sony"), once a joint venture by Sony and German entertainment giant Bertlesmann AG ("BMG"), now wholly owned by Sony;

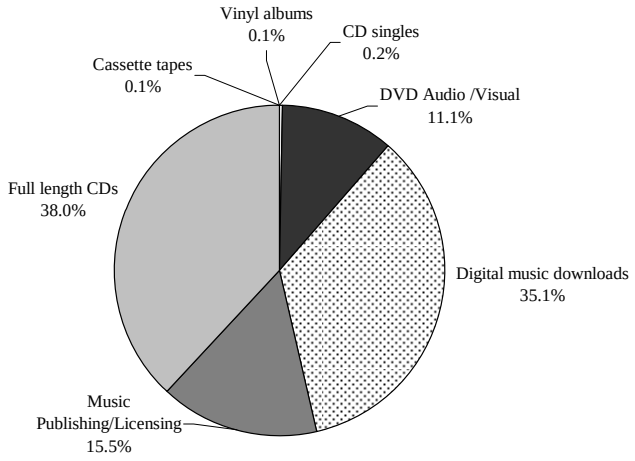
- EMI Group plc ("EMI"), a United Kingdom-based music production and distribution company; and

- Warner Music Group ("WMG").

With the exception of WMG, the major participants in the music industry are based in Europe, but all earn the bulk of their revenue in the United States. The United States generates 42.3% of total industry income. Smaller regions represent a negligible share of the overall industry. Australia is the seventh-largest market for retail sales, comprising only 1.9% of total global revenue.

The music industry has been severely affected by the emergence of the internet. The internet has fundamentally altered the way music is made, marketed, bought, sold and listened to. Consumers now have the option of acquiring music on physical media legally (at a premium price) or by way of illegally pirated copies, by legal online file downloads, or through illegal P2P file sharing. Initially, internet distribution of music was principally based on illegal downloads, but legal downloads are increasing in volume following concentrated efforts by the major music distributors. The digital downloading of music is expected to "cross over" in sales terms above the physical format in the next two to three years.

Global Music Media by Type



Source: IBIS Report, Global Music Production and Distribution, Q8712-GL, August 2009

The major participants have attempted to reduce the impact of the internet through music publishing. Music publishing is a profitable and growing segment in the music industry, currently at 26.2% of total industry revenue. Music publishing is divided into three distinct segments:

- mechanical royalties: derived from the use of music on physical and digital recordings;

- performance royalties: the use of songs in live performance or live television and radio broadcasts (e.g. Madonna and U2 performing at the Live Aid concerts); and

- synchronisation royalties: for pre-recorded film or television commercials, online commercials and video games.

The United States, with an advertising industry worth around 35% of the global total, is the largest user of music licensing through advertising and programming. It is expected that music publishing revenue will grow in prominence as major participants continue to realise its profitability, in the face of the emergence of the online channel for music.

In 2009, global music production, distribution and publishing are expected to earn $32.5 billion, down from $46.5 billion in 2004 and $55.9 billion in 1999. Revenue has fallen every year since 2003, when legal digital downloads first became available. Over the next five years, industry revenue is expected to continue to contract at a rate of 3.4% per year.

4.5.2 Overview of Operations

Background

In 2008, VRL announced the merger of VRP and Concord, a United States-based music group, to create a new diversified entertainment group, VREG with VRL as the 40.9% major shareholder. VREG's other shareholders are Act III Entertainment (a media investment firm co-owned by Norman Lear and the Gaba family, Hollywood-based entertainment entrepreneurs and previous owners of Concord), Lambert Entertainment and private equity firms Tailwind Capital Partners and Clarity Partners.

VRL's film production activities are conducted through VRP and music production activities are conducted through Concord. While VRP and Concord operate as separate entities, the combination of these complementary film and music assets provides VRL with cross-platform opportunities, as well as a scalable corporate infrastructure enabling operating efficiencies and growth.

Film Production

VRL can trace its participation in the film production business back to the 1970s, through its involvement in the production and distribution of Australian films such as *Mad Max*, *Priscilla Queen of the Desert* and *Muriel's Wedding.* However, VRL (through VRP) entered the film production business in a substantial way in 1998, through the establishment of a film Co-Production Agreement with Warner Bros.

Since 1998, VRP has released 62 films (principally with Warner Bros.) as of September 2009. VRP effectively acquired the international (i.e. non-North American) rights for exploitation of these films. Some of the films were highly successful:

- *The Matrix*, released in March 1999, grossed US$451million in world wide box office takings;
- *Ocean's Eleven*, released in December 2001, grossed US$450 million in world wide box office takings;
- *Miss Congeniality*, released in December 2000, grossed US$211 million in world wide box office takings;
- *I Am Legend*, released in December 2007, grossed US$586 million in world wide box office;
- *Get Smart*, released in June 2008, grossed US$230 million in world wide box office; and
- *Gran Torino*, released in December 2008, grossed US$263 million in world wide box office.

Other high profile films produced by VRP include Two Weeks Notice, Training Day, Cats & Dogs, Deep Blue Sea, Three Kings and Swordfish.

The terms of VRP's finance facilities are critical to an assessment of VRL's Film Production and Music division.

In May 2009, VRL announced a restructuring of its finance facilities. Under the restructure:

- financial accommodation of US$900 million, with availability (subject to financial covenants) until 30 September 2010, with amortisation after that date, ultimately repayable by 30 September 2012;
- no further drawdowns will be allowed against the facility after September 2010, and the debt is scheduled to be fully repaid by September 2012;
- until September 2010, VREG will have limited ability to extract cash from the VRP financing structure;
- after September 2010, and only once all the bank debt is repaid, any surplus cash can be returned to VREG; and
- VRP is also entitled to recover production and overhead ("P&O") fees.

Accordingly, the economic benefits for VRP will be a function of three factors:

- the P&O fees received by VRP;
- the overhead costs associated with the VRP business; and
- film profitability.

The relationship between VRP and Warner Bros is a core part of the VRP business model:

- the Warner Bros. relationship provides VRP with substantial credibility. Warner Bros. has been one of the leading major studios in recent years. The Warner Bros. relationship provides VRP with enhanced access to development opportunities and "talent";
- collaborative financing enables VRP to be involved in the production of a larger portfolio of films, including bigger budget films. VRP believes that bigger budget films generally have better prospects for commercial success than smaller budget films. The creation of a significant portfolio of films is important, to diversify film performance risk;
- both VRP and Warner Bros. must approve each film to be co-produced by the parties, including approval of the final script, production budget, director and principal cast;
- whilst Warner Bros. acquires the domestic (i.e. North American) rights and VRP the foreign rights for each film that is co-produced, the effect of the arrangements in most circumstances is that Warner Bros. and VRP end up with 50:50 interests in each film; and
- VRP has the rights for co-produced films for the foreign markets. VRL is the direct distributor in Australia, New Zealand and Singapore mainly through the Film Distribution division. In other markets (where VRL does not have distribution infrastructure), VRP sub-contracts distribution to Warner Bros. for a market-based distribution fee.

VRP is not primarily responsible for physical production, but its involvement extends well beyond mere production financing:

- VRP focuses on film selection, with a structured, commercially oriented process aimed at selecting films with a good chance of success in the international market place. VRL believes that its international experience in film distribution and exhibition allows it to bring valuable insights to the film selection process;

- VRP emphasises cost management. Its executives are closely involved in monitoring production progress and performance against cost budgets. Wherever possible and practicable, VRP promotes production in lower cost countries outside the United States, such as Australia and Canada;

- VRP is involved in the oversight of production, having input through all phases including the creative, pre-production, physical and post-production phases; and

- VRP is closely involved in film marketing, which is often a critical determinant of commercial success.

In addition to the 58 films co-produced and released with Warner Bros., since 1998, VRP has co-financed and co-produced four films with Paramount (2), Sony (1) and New Regency/Fox (1).

Concord Music Group

Established in 1973, Concord is one of the world's premier producers of jazz and traditional pop. In 2004, Concord acquired and merged with Fantasy Inc., home to one of the world's most prestigious catalogues of jazz, blues, R&B and rock music, to create the Concord Music Group. The following year, Concord acquired Telarc International Corporation, a leader in classical and jazz recordings for over 25 years.

Today, Concord is the largest independent record company in the world and keeper of an extensive and, in many cases, historically significant catalogue of recordings from some of the most admired and enduring names in music.

Concord is also the holder of a prominent music catalogue of music publishing rights. With over 5,000 albums, Concord's catalogue of master recordings includes titles by artists such as Ray Charles, Frank Sinatra, John Coltrane, Creedence Clearwater Revival, Miles Davis, Ella Fitzgerald, Little Richard and Otis Redding. Concord's current recordings and releases include Paul McCartney, George Benson and Angie Stone.

In 2007, Concord launched Hear Music, a joint venture label with Starbucks Entertainment. The first releases under this label were new recordings by Paul McCartney, Joni Mitchell, James Taylor and Sia. In the future, the label will feature recordings by new and established artists in multiple genres.

4.5.3 Financial Performance

Due to the restructuring of the VREG group and the fact that no significant results are taken up by VRL due to equity accounting requirements, the historical financial performance is not relevant.

The net earnings of the Film Production and Music division represent the sum of film profitability (including facility interest charges and film amortisation), music revenue and producer and overhead fees, less overheads and other costs.

In the 2010 financial year, VRP plans to release *Where the Wild Things Are, Sherlock Holmes and Sex and The City II.* Beyond 2010, VRP's profitability will be a function of underlying film performance and the number of future productions, which drives VRP's P&O fee income.

5 Valuation of VRL

5.1 Summary

VRL has been valued in the range $852-1,222 million. The valuation represents the estimated full underlying value of VRL assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect VRL shares to trade on the ASX in the absence of a takeover offer.

VRL shareholders should understand that the valuation is appropriate purely in the context of a hypothetical change of control transaction. No such transaction is currently proposed for VRL. Moreover, given the controlling shareholding in VRL of VRC, it appears reasonable to conclude that it is highly unlikely that minority shareholders will ever be able to realise the full underlying value of VRL through a change of control transaction.

The value for VRL is the aggregate of the estimated market value of VRL's operating businesses and its 52.52% interest in Austereo, less external borrowings. Where appropriate, off-balance sheet net debt relating to individual businesses has been included in the valuation of the relevant business. The valuation is summarised below:

VRL - Valuation Summary ($ million)

	Report Section Reference	Value Range	
		Low	High
Theme Parks	5.3	800	900
Cinema Exhibition	5.4	304	354
Radio (52.52%)	5.5	310	350
Film Distribution	5.6	250	290
Film Production and Music	5.7	50	150
Head office costs (net of assumed cost savings)	5.8	(200)	(180)
Enterprise value		**1,514**	**1,864**
Other liabilities	5.9	(55)	(35)
Net borrowings at 30 June 2009 (adjusted)	5.10	(607)	(607)
Value of equity		**852**	**1,222**

The value attributed to VRL's operating activities is an overall judgement having regard to a number of valuation methodologies and parameters. Given the difficulties in developing reliable earnings and cash flow forecasts for VRL beyond the short term, discounted cash flow analysis can be no more than indicative. Accordingly, the principal approach to valuing VRL's major operating businesses and its 52.52% interest in Austereo was capitalisation of earnings (multiples of EBITDA and EBIT), except for Film Production and Music for which discounted cash flow analysis was considered.

The earnings multiples implied by the valuation of VRL's operating businesses and the value of the equity of VRL are summarised below:

VRL – Implied Valuation Parameters			
	Variable (historical and adjusted) ($ million)	Low	High
Multiple of EBITDA			
Year ended 30 June 2008	182	8.3	10.3
Year ending 30 June 2009	194	7.8	9.6
Multiple of EBIT			
Year ended 30 June 2008	122	12.4	15.2
Year ending 30 June 2009	130	11.6	14.3
Multiple of net profit after tax			
Year ended 30 June 2008	52	16.3	23.4
Year ending 30 June 2009	56	15.2	21.8

VRL's earnings in the above table have been adjusted to remove 47.48% of Austereo's earnings (as it is consolidated in VRL's accounts) and the earnings from the Cinema Exhibition businesses in Greece and Czech Republic and Film Distribution business in Greece that have been divested since 30 June 2009 (in the case of EBITDA and EBIT), and to remove the earnings from the Cinema Exhibition businesses in Greece and Czech Republic and Film Distribution business in Greece in the case of net profit after tax.

The VRL 2010 Forecast was provided to Grant Samuel for the purposes of its analysis. At the request of the VRL directors, neither the forecast earnings nor the multiples of forecast earnings implied by Grant Samuel's valuations been disclosed in this report because of commercial sensitivity.

The valuation reflects the particular attributes of VRL's businesses and takes into account factors such as:

- its historical performance, market position in key markets and short to medium term growth outlook;
- the impact of current global economic conditions and outlook for economic recovery; and
- the market evidence in terms of earnings multiples implied by the acquisitions of other Australian and international companies comparable to VRL's operating businesses and the share prices of listed Australian and international companies that are comparable to VRL's operating businesses.

The estimated value range for VRL includes a premium for control. Prices paid in takeovers are typically premiums in the range 20-35% relative to sharemarket trading prices, depending on the individual circumstances. Synergies available to acquirers such as cost savings through merging operations are normally a significant factor in justifying the ability of acquirers to pay a meaningful premium over market prices (although in recent times private equity buyers of listed companies have also paid significant premiums despite the apparent absence of synergies).

The aggregate market capitalisation of the ordinary shares and preference shares as at 16 October 2009 was approximately $326.1 million. This represents a very deep discount to Grant Samuel's assessment of the underlying value of VRL, potentially reflecting a number of factors:

- VRC, a company associated with the Kirby family and Graham Burke, has a 61.4% controlling interest in VRL;

- VRC's substantial holding of VRL ordinary shares means that the shares have limited liquidity. The division of VRL's capital base into ordinary and preference shares further undermines liquidity;
- VRL's "pyramid" structure, in which it holds a significant investment (its Radio division) through a 52.52% shareholding in another ASX-listed company, Austereo, is likely to reduce the value of VRL's Radio division as reflected in the VRL share price. Listed investment companies commonly trade at a discount to the market value of their investments;
- based on the current market value of VRL's equity and its most recently reported debt, VRL is very highly geared (although analysis based on debt to earnings measures suggests that VRL's gearing levels are not unreasonable). In recent times the Australian market appears to have aggressively discounted companies with high levels of gearing and perceived financing risk;
- there is minimal disclosure of earnings in relation to the Film Production and Music division as VRL now only has a 40.9% interest and therefore does not consolidate the division into its accounts. Moreover, the Film Production and Music division is inherently volatile and its financing arrangements are complex; and
- until recently the VRL business was complex, with multiple joint ventures and operations in many jurisdictions. VRL has substantially simplified the business in recent years. However, given the lack of analyst coverage, the market may not understand the extent to which the business has been rationalised.

5.2 Methodology

5.2.1 Overview

Grant Samuel's valuation of VRL has been estimated by aggregating the estimated market value of its operating business and its 52.52% interest in Austereo and deducting external borrowings and non-trading liabilities as at 30 June 2009. Where appropriate, off-balance sheet net debt relating to individual businesses has been included in the valuation of the relevant business. The value of the operating businesses has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of VRL is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in VRL could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on one or both of the discounted cash flow and capitalisation of earnings methodologies. Grant Samuel has primarily had regard to the capitalisation of earnings methodology in the valuation of VRL, except for the Film Production and Music division for which discounted cash flow analysis was considered (as earnings multiples are essentially meaningless for this business).

5.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and

- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In determining a value for VRL's businesses, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

In the case of VRL, management has prepared earnings forecasts for the four years ending 30 June 2013. Whilst the earnings of the Theme Parks division are reasonably stable (albeit subject to the global economic environment), the earnings of the Radio division are difficult to forecast as they are reliant on the future performance of the advertising market. Future earnings for the Cinema Exhibition division and, to a lesser extent, the Film Distribution division, could vary depending on the quality of new product. Accordingly, longer term earnings forecasts are inherently subject to uncertainty. Grant Samuel has not based its valuation on discounted cash flow analysis for these divisions of VRL. Grant Samuel has considered discounted cash flow analysis to value the Film Production and Music division as EBITDA and EBIT multiples are essentially meaningless given the nature of the finance facility for this division.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of VRL. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in VRL's case.

5.3 Theme Parks

The Theme Parks division has been valued in the range $800-900 million. This valuation is a subjective judgement having regards to earnings multiple analysis. The valuation of the Theme Parks division represents the following multiples of underlying EBITDA and EBIT:

Theme Parks – Implied Valuation Multiples		
	Low	**High**
Theme Parks Enterprise Value ($ million)	**800**	**900**
Multiple of EBITDA		
Year ended 30 June 2008 (historical)	9.4	10.6
Year ended 30 June 2009 (historical)	7.9	8.9
Multiple of EBIT		
Year ended 30 June 2008 (historical)	13.5	15.2
Year ended 30 June 2009 (historical)	11.7	13.1

Grant Samuel has reviewed these multiples having regard to listed companies with activities comparable to the Theme Parks division, and transactions involving comparable companies.

Transaction Evidence

There have been a number of transactions in Australia and overseas involving the acquisition of companies with activities comparable to the activities of the Theme Parks division. The following table sets out the EBITDA and EBIT multiples implied by selected transactions involving companies comparable to the Theme Parks division since 2005:

Theme Parks - Recent Transaction Evidence							
Date	Target	Transaction	Total Transaction Consideration (million)[24]	EBITDA Multiple[25]		EBIT Multiple[26]	
				Historical Year 1	Forecast Year 1	Historical Year 1	Forecast Year 1
Mar 2009	USJ Co Ltd	Takeover by consortium	JPY132,768	6.9	na	18.0	na
Nov 2007	South Lakeland Parks Limited	Takeover by White Ocean Leisure Limited	GBP 125	12.5	na	na	na
Sep 2007	Sydney Attractions Group	Takeover by VRL	AUD 205	13.7	9.6	35.4	14.8
Jan 2007	Six Flags - 7 parks sold	Acquisition of 7 parks from Six Flags	USD 312	10.4	na	na	na
Jun 2006	MFS Living and Leisure	IPO of MFS Living and Leisure	AUD 282	11.5	9.1	29.4	20.9
May 2006	Warner Bros Australian Theme Parks	Acquisition of Warner Bros Australian Theme Parks	AUD 637	12.9	na	27.6	na
May 2006	Paramount Parks Inc	Acquisition of Paramount Parks by Cedar Fair	USD 1,240	11.3	11.5	24.0	na
Feb 2006	MFS Living and Leisure	Acquisition of Oceanis by MFS	AUD 152	19.0	9.2	na	na
Jan 2006	Sydney Attractions Group	Acquisition of a 15% stake in Sydney Attractions by VRL	AUD 29[27]	13.1	11.6	17.6	16.1
Jul 2005	Legoland	Blackstone acquisition of Legoland	EUR 375	10.3	na	na	na
May 2005	Merlin Entertainment Inc	Blackstone acquisition of Merlin	GBP 103	7.1	na	na	na

Source: Grant Samuel analysis (see Appendix 1)

Further details on these transactions are set out in Appendix 1.

The transactions have taken place at prices that imply multiples in a very wide range (even after outlying multiples are excluded):

- 10-13 times historical EBITDA and 9-12 times forecast EBITDA; and
- 20-25 times historical EBIT and 15-20 times forecast EBIT.

There were numerous acquisitions in the theme parks/tourist attractions sector during the period 2005 to 2007. This was a period of rising asset prices, and the multiples implied by transactions during this period are high. The subsequent economic downturn has led to a significant decline in corporate activity in the sector over the last two years. In Grant Samuel's view it is likely that acquirers would now be less willing to pay prices at the levels seen during the 2005 to 2007 period. Accordingly, the valuation evidence from transactions which occurred in the 2007 calendar year or earlier should be viewed with caution when making judgements regarding current market value.

The most recent transaction listed above was the privatisation of USJ Co. Ltd, a Japanese company engaged in the operation of Universal Studios Japan, a theme park focusing on movies and

24 Total transaction consideration assuming 100% of the company or business had been acquired.

25 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

26 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

27 Total transaction consideration represents equity stake value alone.

characters from Hollywood. The impact of the global financial crisis led to significant decline in visitation levels at USJ Co. Ltd before it was acquired by a private consortium, at a multiple (6.9 times historical EBITDA) well below the average for transactions over last five years.

Sharemarket Evidence

There are a number of Australian and international listed companies that have activities comparable to those of the Theme Parks division. The sharemarket ratings of selected listed companies are summarised below:

Theme Parks - Sharemarket Ratings of Selected Comparable Listed Companies[28]

Company	Market Cap ($ million)[29]	EBITDA Multiple			EBIT Multiple		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Amalgamated Holdings Limited	748	7.7	6.2	na	10.7	8.2	na
Ardent Leisure Group	441	12.0	42.7	8.0	12.0	42.7	11.7
Living and Leisure Australia Group	101	na	13.8	9.9	na	62.5	29.9
Cedar Fair, L.P.	630	7.0	6.5	7.0	11.2	10.2	11.2
Oriental Land Co. Ltd	6,716	14.5	12.1	12.5	24.8	19.5	19.5
Euro Disney SCA	387	9.8	8.1	10.9	39.9	22.4	64.8
The Walt Disney Company	62,635	6.9	7.1	9.1	8.1	8.5	11.5

Source: Grant Samuel analysis (see Appendix 2)

The multiples have been calculated using close of market share prices as at 16 October 2009. Further details on these transactions are set out in Appendix 2.

All of the companies have a 30 June year end with the exception of Cedar Fair, L.P ("Cedar") and Euro Disney SCA ("Euro Disney"), which have a 31 December year end, Oriental Land Company Limited ("Oriental") which has a 31 March year end and The Walt Disney Company ("Walt Disney") which has a 27 September year end.

The table indicates that the comparable companies have trading multiples that vary significantly. The following comments are noted in relation to the listed comparable companies:

- Amalgamated has cinema exhibition and hotel operations in addition to theme park operations. Amalgamated recorded a strong underlying result in the 2009 financial year from its cinema exhibition activities;
- Ardent Leisure Group (formerly known as Macquarie Leisure Trust Group) is a stapled security that has recently undergone a period of restructure in which it internalised its responsible entity and performed a range of asset sales and capital management initiatives;
- Living and Leisure Australia Group (formerly MFS Living and Leisure) was also restructured in 2008 with a $100 million rights issue;
- in the 2009 financial year, Cedar's earnings declined, largely due to one-off impairment charges, despite an increase in overall attendances across its amusement parks;

[28] The companies selected have a variety of year ends and therefore the data presented for each company is the most recent two annual years historical results plus the subsequent forecast year.

[29] Market capitalisation based on sharemarket prices as at 16 October 2009 in Australian dollars.

- Oriental produced strong results in the 2009 financial year with the 25th anniversary celebrations at its Tokyo Disney Resort in addition to the opening of the Tokyo Disney Hotel and Cirque du Soleil theatre;
- in order to maintain attendance levels at its hotels and theme parks, Euro Disney has recently reduced its prices and experienced a shift in its customer mix to lower spending customers. As at result, forecast earnings are expected to significantly decline; and
- Walt Disney has reported a strong decline in revenues and earnings caused by the global financial crisis.

Analysis and Conclusions

The multiples implied by the valuation of the Theme Parks division were assessed having regard to the above trading and transaction multiples and the particular attributes of the division including its historical performance, market position and short to medium term growth outlook. They reflect the following specific attributes of the Theme Parks division:

- the quality of the portfolio of the assets of the Theme Parks division, including three of Australia's premier theme parks and Sydney's premier aquarium;
- the expected increase in forecast earnings from a full year of operations from Wet 'n' Wild Hawaii and the introduction of earnings from Wet 'n' Wild Phoenix;
- the relative maturity and stable earnings of VRL's major Gold Coast theme park assets, which increases the predictability of future earnings. Cross marketing promotions between those assets, such as the "QLD VIP" three park super pass, should also enable VRL to grow its market share in the crucial Gold Coast market;
- the significant capital expenditure requirements of the Theme Parks division to expand the operations and maintain existing businesses;
- the potential impact on the earnings of the Theme Parks division from global or domestic economic shocks or other unforseen events which have a direct adverse effect on tourist numbers;
- the potential negative impact of bad weather is partially reduced by the geographic and operational diversity of the Theme Parks asset portfolio. For example, whilst poor weather is likely to result in a decline in earnings from the water parks, it is also likely to result in increased earnings from aquariums; and
- the valuation is broadly consistent with the transaction evidence provided by the specific assets which make up the Theme Parks division. In particular:
    - VRL's acquisition of the remaining interests in the Gold Coast Theme Parks from Warner Bros. in May 2006 implied an enterprise value for the entire asset portfolio of approximately $637 million;
    - VRL's full takeover of Sydney Attractions Group in 2008 for $6.50 per share implied an enterprise value for Sydney Attractions Group of approximately $205 million;
    - VRL's acquisition of the remaining 50% interest in the Sea World Resort from Nara Australia in September 2006 for $21.3 million; and
    - VRL's acquisition of water parks in Hawaii and Phoenix in 2008 for US$27 million and US$25 million respectively.

Grant Samuel has considered the forecast for the year ending 30 June 2010 for the Theme Parks division in its analysis. At the request of the directors of VRL neither the forecast earnings nor the multiples of forecast earnings implied by Grant Samuel's valuation have been disclosed in this report, because of commercial sensitivity. Grant Samuel considers that the multiples of forecast 2010 earnings implied by its valuation of the Theme Parks division are reasonable.

5.4 Cinema Exhibition

The Cinema Exhibition division has been valued in the range $304-354 million. This valuation is a subjective judgement having regard to earnings multiple analysis. The valuation is summarised below:

Cinema Exhibition – Valuation Summary ($ million)		
	Low	**High**
Enterprise value of Cinema Exhibition Australia and Singapore (excluding debt)	310	360
VRL share of net debt (off-balance sheet guaranteed) Cinema Exhibition Singapore	(6)	(6)
Enterprise value of Cinema Exhibition United States	-	-
Value of Cinema Exhibition	**304**	**354**

The valuation takes into account VRL's share of off-balance sheet net debt relating to Cinema Exhibition Singapore (drawn down in early July 2009). Grant Samuel has attributed no separate value to Cinema Exhibition United States given its loss-making financial performance and the significant capital expenditure required to achieve critical mass in the business. The valuation of the Cinema Exhibition Australia and Singapore businesses represents the following multiples of adjusted EBITDA and EBIT:

Cinema Exhibition Australia and Singapore – Implied Valuation Multiples		
	Low	**High**
Cinema Exhibition Australia and Singapore Enterprise Value ($ million)	**310**	**360**
Multiple of EBITDA		
Year ended 30 June 2008 (historical) (adjusted)	7.7	8.9
Year ended 30 June 2009 (historical) (adjusted)	6.6	7.7
Multiple of EBIT		
Year ended 30 June 2008 (historical) (adjusted)	11.6	13.5
Year ended 30 June 2009 (historical) (adjusted)	9.4	10.9

Adjusted EBITDA and EBIT for the Cinema Exhibition division include VRL's share of EBITDA and EBIT from the joint venture in Singapore. The Singaporean joint venture includes some distribution operations which have been valued along with the Cinema Exhibition Singapore business due to their insignificant size. The losses from the Cinema Exhibition business in the United States have been excluded from adjusted EBITDA and EBIT. The earnings from the Cinema Exhibition businesses in Greece and Czech Republic have also been excluded on the basis that these businesses have been divested.

Grant Samuel has reviewed these multiples having regard to listed companies with activities comparable to those of Cinema Exhibition division, and having regard to transactions involving comparable companies.

Transaction Evidence

There have been a number of transactions involving the acquisition of companies with activities comparable to those of the Cinema Exhibition division.

The following table sets out the EBITDA and EBIT multiples implied by selected transactions since 1999:

Cinema Exhibition - Recent Transaction Evidence							
Date	Target	Transaction	Total Transaction Consideration (million)[30]	EBITDA Multiple		EBIT Multiple	
				Historical Year 1	Forecast Year 1	Historical Year 1	Forecast Year 1
Aug 2006	Century Theatres, Inc.	Acquisition by Cinemark Inc	USD 681	10.7[31]	na	19.2[31]	na
Dec 2004	Hoyts Cinema Group	Acquisition by Publishing and Broadcasting Limited and West Australian Newspapers Holdings Limited	AUD 520	8.0	na	na	na
Jul 2004	AMC Entertainment Inc.	Acquisition by Marquee Holdings Inc.	USD 1,670	8.7	7.6	18.9	na
May 2003	Village Warner United Kingdom joint venture	Sale by VRL and AOL Time Warner Inc. of the Village Warner United Kingdom joint venture to SBC International Cinemas	GBP 226	8.5	na	na	na
Mar 2003	Australian Multiplex JV 33% Warner Bros. share	Acquisition of Warner Bros.' share in Australian Multiplex JV by VRL and GUO	AUD 300	6.5[32]	na	na	na
Mar 2003	Odeon Cinemas	Acquisition by an investor group led by West LB AG	GBP 431	9.2	na	na	na
Mar 1999	Hoyts Cinema Group Pty Ltd	Acquisition by Consolidated Press Holdings	AUD 625	6.9	na	na	na

Source: Grant Samuel analysis (see Appendix 1)

Further details on these transactions are set out in Appendix 1.

The transactions have taken place at prices that imply multiples in a range of 7–10 times historical year 1 EBITDA.

The selected transactions involved acquisitions in reasonably mature cinema markets such as Australia, the United States and the United Kingdom. The following comments are noted:

- the multiples commonly appear to reflect market share and the general attractiveness of the targets;
- EBIT multiples are typically much higher than EBITDA multiples due to the significant levels of depreciation and amortisation in the cinema exhibition industry;
- a number of the transactions involved acquirers that were developing or adding to national or international cinema circuits; and
- private equity and investor consortiums have played a role in a number of cinema exhibition industry transactions.

The transactions provide evidence of prices that acquirers are willing to pay and provide some support for the multiples implied by the valuation of the Cinema Exhibition division. The global cinema industry has changed significantly over the past ten years with consolidation being a

30 Total transaction consideration assuming 100% of the company or business had been acquired.

31 Multiples calculated on earnings from financial year ended 26 September 2006.

32 2003 June year end multiple based on management estimate of normalised EBITDA.

feature in some markets (such as the United States). It is probable that this has had an impact on past valuations, increasing acquisition prices as acquirers have sought to expand market share.

In the Australian market, cinema earnings have remained strong despite general economic decline, and future growth in earnings is expected.

Sharemarket Evidence

There are a number of listed companies in Australia and in North America that are directly comparable to the Cinema Exhibition division. The sharemarket ratings of selected listed companies are summarised below:

Cinema Exhibition - Sharemarket Ratings of Selected Comparable Listed Companies[33]

Company	Market Cap[34] ($ million)	EBITDA Multiple[35]			EBIT Multiple[36]		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Amalgamated Holdings Limited	748	7.7	6.2	na	10.7	8.2	na
Carmike Cinemas, Inc.	166	6.4	6.9	6.4	13.1	14.5	8.2
Cinemark Inc.	1,483	7.1	7.2	6.4	11.9	12.7	11.5
Cineplex Galaxy Income Fund	1,074	12.8	9.3	8.2	33.7	23.3	21.5
Regal Entertainment Group	2,055[37]	6.8	6.5	6.2	10.4	10.5	9.7

Source: Grant Samuel analysis (see Appendix 2) [38]

The multiples have been calculated using close of market share prices as at 16 October 2009. Further details on these transactions are set out in Appendix 2.

The table indicates that the comparable companies have trading multiples in a range of around 6-8 times year 1 historical EBITDA, whilst year 1 historical EBIT multiples vary widely. Forecast EBITDA multiples are generally in the range of 6-7 times.

All of the North American companies have a 31 December year end, except for Regal Entertainment Group, which had a 1 January year end. Consequently, the historical multiples reflect full year earnings to 30 June 2009 for Amalgamated, 31 December 2008 for Carmike Cinemas, Inc., Cinemark Inc. and Cineplex Galaxy Income Fund and 1 January 2009 for Regal Entertainment Group.

33 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent two annual years historical results plus the subsequent forecast year.

34 Market capitalisation based on sharemarket prices as at 16 October 2009.

35 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

36 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

37 Includes A & B common stock.

38 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

Analysis and Conclusions

The multiples implied by the valuation of the Cinema Exhibition division were assessed having regard to the above trading and transaction multiples and the particular attributes of the division including its historical performance, market position and short to medium term growth outlook. Grant Samuel has also considered the price Village Cinemas paid in 2003 to increase its interest in the Australian Multiplex business. A one third interest in the business was acquired for $100 million, implying a value of $150 million for Village Cinemas' 50% interest at the time. The transaction was undertaken on a 2003 EBITDA[39] multiple of 6.5 times. This implies a current value of around $305 million for VRL's Cinema Exhibition division (including Singapore EBITDA and excluding the United States operations).

The implied multiples reflect the following specific attributes of the Cinema Exhibition division:

- the division is the third largest operator of cinemas in Australia, and the largest in the Victorian market;
- the division is relatively mature and has adopted a lower growth strategy which has significantly reduced the risk of the business;
- the cinema stock is in good condition following a significant refurbishment and capital expenditure program and continuous monitoring and upgrading; and
- the Australian cinema market has shown relative strength (for example, in comparison with the United States market), with box office takings continuing to grow.

On the other hand:

- the business is reliant upon the popularity of films in general and the specific films it exhibits. Whilst the outlook for new films is strong in the short term with a number of blockbuster sequels expected to support the market, there is a risk that these films will not perform as well as expected, and that the longer term pipeline of new product declines in quality and number;
- VRL's joint venture in the United States made a loss in the 2009 financial year. Expansion of this business into four new sites and a forecast recovery in the United States market conditions are expected to improve the outlook of this business; and
- VRL's joint venture partners in the United States, Singapore and Australia have pre-emptive rights in relation to the Cinema Exhibition division.

Grant Samuel has considered the forecast for the year ending 30 June 2010 for the Cinema Exhibition division in its analysis. At the request of the directors of VRL neither the forecast earnings nor the multiples of forecast earnings implied by Grant Samuel's valuation have been disclosed in this report, because of commercial sensitivity. Grant Samuel considers that the multiples of forecast 2010 earnings implied by its valuation of the Cinema Exhibition division are reasonable.

5.5 Radio

Austereo's equity has been valued in the range $591-666 million. This value range corresponds to a value of $1.71-1.93 per share and gives a value for VRL's 52.52% interest of $310-350 million. This valuation is a subjective judgement having regard to earnings multiple analysis. The valuation is summarised below:

[39] June 2003 year end multiple based on management estimates of normalised EBITDA.

Austereo - Valuation Summary ($ million)		
	Value Range	
	Low	High
Australian radio business	800	870
Interests in international radio businesses	10	15
Enterprise value	**810**	**885**
Net borrowings as at 30 June 2009	(219)	(219)
Value of equity	**591**	**666**
Number of issued shares (million)	345	345
Value per share	**$1.71**	**$1.93**
Number of shares owned by VRL (million)	181	181
Value of VRL interest in Austereo	**310**	**350**

The valuation represents the estimated full underlying value of Austereo assuming 100% of the company was available to be acquired and includes a premium for control.

The valuation represents a premium of 20-36% on recent Austereo share prices which has traded at a volume weighted average price of $1.42 in the month ended 16 October 2009.

5.5.1 Australian Radio Business

Summary

The Australian radio business has been valued in the range $800-870 million. This valuation range represents the following multiples of earnings:

Australian Radio Business – Implied Valuation Multiples		
	Low	High
Australian Radio business Enterprise Value ($ million)	**800**	**870**
Multiple of EBITDA		
Year ended 30 June 2008 (historical)	8.7	9.5
Year ended 30 June 2009 (historical)	9.4	10.2
Multiple of EBIT		
Year ended 30 June 2008 (historical)	9.5	10.4
Year ended 30 June 2009 (historical)	10.3	11.2

The Australian radio business comprises the Today and Triple M networks, Austereo's 50% interests in the regional radio station joint ventures in Canberra and Newcastle and Austereo Interactive. These businesses have been valued together on the basis that they would be worth more as an integrated business than as individual networks or individual radio stations.

Grant Samuel's valuation of Austereo has taken into account Austereo's forecast earnings for the year ending 30 June 2010. At the request of the directors of VRL neither the forecast earnings nor the multiples of forecast earnings implied by the valuation have been disclosed in this report, because of commercial sensitivity. Grant Samuel considers that the multiples of forecast 2010 earnings implied by its valuation of Austereo are reasonable.

Grant Samuel has reviewed the multiples set out above having regard to listed companies with activities comparable to those of Austereo, and transactions involving companies with significant radio businesses.

Transaction Evidence

There have been a number of transactions in Australia involving the acquisition of radio stations and radio networks. None of the radio businesses that have been acquired are directly comparable to Austereo's Australian radio business. In particular, none had the market leading position enjoyed by Austereo's Australian radio business in the 25-39 demographic across Australian capital cities.

The following table sets out the EBITDA and EBIT multiples implied by selected transactions since 2001 involving companies broadly comparable to Austereo:

Radio - Recent Transaction Evidence

Date	Target	Transaction	Total Transaction Consideration ($ million)[40]	EBITDA Multiple		EBIT Multiple	
				Historical Year 1	Forecast Year 1	Historical Year 1	Forecast Year 1
Nov 2007	Southern Cross Broadcasting (Australia) Limited	Fairfax Media Limited	1,440	13.0	12.3	15.1	14.1
Jun 2004	RG Capital Radio Limited	Acquisition by Regional Media Pty Limited	233	11.0	10.0	12.8	na
Jul 2003	RedWave Media	Acquisition by West Australian Newspapers Limited	15	na	14.7	na	na
Feb 2003	4BH AM	Acquisition by Southern Cross Broadcasting (Australia) Limited	10	na	6.7	na	na
Aug 2002	DMG	Acquisition of 25% interest by Daily Mail	446	9.0	na	17.9	na
Mar 2002	NX FM and KO FM	Acquisition of 50% interest by RG Capital	24	12.0	11.5	12.6	12.1
Mar 2001	2UE AM, 4BC AM, Sky Radio	Acquisition by Southern Cross Broadcasting (Australia) Limited	112	94.2	12.7	na	1.8

Source: Grant Samuel analysis (see Appendix 1)

Further details on these transactions are set out in Appendix 1.

The transactions have taken place at prices that imply multiples in a very wide range (even after outlying multiples are excluded):

- 9-13 times historical EBITDA and 10-12 times forecast EBITDA; and
- 13-15 times historical EBIT and 12-14 times forecast EBIT.

The multiples that acquirers have been prepared to pay for radio broadcasting businesses have varied depending on a number of factors. The following comments are noted:

[40] Total transaction consideration assuming 100% of the company or business had been acquired.

- acquisitions of regional or metropolitan networks have generally taken place at higher multiples than acquisitions of single stations;

- the majority of the above transactions have involved acquirers who were expanding or adding to national or regional radio networks;

- the acquisition of Southern Cross by Fairfax is the most recent and relevant transaction evidence for the Radio business (although it is noted that Southern Cross' largest asset was its television business). Southern Cross' radio assets held strong market share positions at the time of the transaction (although they were primarily AM stations), and were forecasting strong growth. This transaction occurred during a period of relatively high asset prices and may not be representative of prices that purchasers would currently be prepared to pay;

- the acquisition of regional radio broadcaster RG Capital by Regional Media Pty Limited in 2004 is a relevant benchmark for the valuation of Austereo. Notably, however, RG Capital is a regional radio broadcasting businesses, whilst Austereo is a metropolitan radio network; and

- the acquisition of RedWave Media Limited by West Australian Newspapers Limited also involved a regional radio broadcasting network, albeit of a considerably smaller scale than Austereo and RG Capital.

Sharemarket Evidence

There are three listed companies in Australia that have radio businesses that are comparable to Austereo's Australian radio business. The sharemarket ratings of these companies are summarised below:

Radio - Sharemarket Ratings of Selected Comparable Listed Companies[41]

Company	Market Cap[42] ($ million)	EBITDA Multiple			EBIT Multiple		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Austereo	**490**	**7.8**	**8.3**	**8.7**	**8.5**	**9.1**	**9.6**
APN News & Media Limited	1,379	7.4	8.9	10.7	8.3	10.6	12.6
Fairfax Media Limited	4,057	7.3	11.7	9.9	8.5	15.3	12.4
Macquarie Media Group Limited	464	16.3	14.5	8.0	22.7	24.1	10.4

Source: Grant Samuel analysis (see Appendix 2)[43]

The multiples have been calculated using close of market share prices as at 16 October 2009. Further details on these transactions are set out in Appendix 2.

All of the companies have a 30 June year end with the exception of APN which has a 31 December year end.

The table indicates that APN and Fairfax are trading around:

41 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

42 Market capitalisation based on sharemarket prices as at 16 October 2009.

43 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

- 9-12 times actual 2009 EBITDA and 10-11 times forecast 2010 EBITDA; and
- 11-15 times actual 2009 EBIT and 12-13 times forecast 2010 EBIT.

Macquarie Media is trading on higher multiples of actual 2009 EBITDA and EBIT and lower multiples of forecast EBITDA and EBIT. This appears to reflect expectations of significant growth in earnings for the 2010 financial year, as a result of a recovery in the national television advertising market and the benefits of various revenue and cost optimisation initiatives.

Analysis and Conclusions

The multiples implied by the valuation of Austereo's Australian radio business were assessed having regard to the above trading and transaction multiples and the particular attributes of the Australian radio business, including its historical performance, market position and short to medium term growth outlook. In this context:

- the Australian radio business has a strong position in the Australian radio broadcasting market:
  - it is the only national FM radio network with two radio stations in each of the five major capital city markets as well as two stations in each of Canberra and the largest regional market, Newcastle;
  - it has maintained its market leading position, even after the launch of new competitor radio stations. The Australian radio business has clear overall market leadership at the national level and in the market for listeners aged 18-39 years, the demographic that is most sought after by advertisers;
  - the Australian radio business achieves high EBITDA margins compared to its peers; and
  - Austereo is the market leader in achieving cross platform integration of content and sales across existing and emerging digital media; and
- it generates strong cash flows with relatively low levels of earnings required to be reinvested in fixed assets and working capital.

On the other hand:

- the short term outlook for Austereo's Australian radio business is uncertain due to:
  - the adverse impact of prevailing global economic conditions on the advertising market (radio advertising revenue declined by 3.28% in the 2009 financial year and is expected to continue to fall in the 2010 financial year);
  - the poor performance of the Triple M network and the uncertain prospects for a turnaround of the network's performance; and
  - the possible negative impact of recent incidents involving prominent radio personalities on the Today network in Sydney on ratings and advertising revenues; and
- Austereo's performance is driven by the outlook for growth in the Australian advertising market and the share of the advertising market that the radio broadcasting industry can expect to capture. The rate and extent of Australia's economic recovery and the flow-on effect to the advertising market are inherently uncertain.

5.5.2 International Radio Operations

Grant Samuel has attributed a value of $10-15 million to Austereo's consultancy agreement with Malaysia's AMP, based on the contracted annual consultancy fee.

Grant Samuel has not attributed any value to the United Kingdom business, UKRD. Austereo's 4.38% interest in UKRD was written down to $1 in the 2009 financial year.

5.5.3 Net Borrowings

Grant Samuel has assumed net borrowings of $219.4 million in the valuation of Austereo, which was the balance as at 30 June 2009.

5.6 Film Distribution

The Film Distribution division has been valued in the range $250-290 million. This valuation is a subjective judgement having regards to earnings multiple analysis. The valuation of the Film Distribution division represents the following multiples of EBITDA and EBIT:

Film Distribution – Implied Valuation Multiples		
	Low	**High**
Film Distribution Enterprise Value ($ million)	**250**	**290**
Multiple of EBITDA		
Year ended 30 June 2008 (historical) (adjusted)	4.7	5.5
Year ended 30 June 2009 (historical) (adjusted)	4.5	5.3
Multiple of EBIT		
Year ended 30 June 2008 (historical) (adjusted)	6.5	7.5
Year ended 30 June 2009 (historical) (adjusted)	5.8	6.8

The adjusted EBITDA and EBIT exclude the earnings relating to the Greek distribution business which has been divested. The implied multiples reflect the following specific attributes of the Film Distribution division:

- the division is one of the largest operators in Australia and New Zealand. The Singaporean film distribution business operates and has been valued as part of Cinema Exhibition due to its small size;
- the division relies significantly on its relationship with Warner Bros. and VRP, and also on the Cinema Exhibition division;
- earnings have grown strongly in recent year on the back of strong DVD sales, but are expected to decline in the short term;
- the division is, in part, dependent on the popularity of the films it distributes, and is therefore dependent on quality new product. There is a risk that the volume of new product for distribution may decline in coming periods as a result of the global financial crisis; and
- piracy is expected to have an adverse impact on the medium term performance of the division.

The multiples are considered reasonable, notwithstanding the limited transaction evidence and absence of sharemarket trading evidence available. Magna Pacific Holdings Ltd was a listed Australian film distributor that was acquired by Destra Corporation Limited in a transaction announced in March 2007. The consideration implied historical EBITDA and EBIT multiples of 10.1 and 12.0 times respectively[44]. Additionally, the purchase of the remaining 50% share of

[44] Implied value of full cash offer at announcement.

Roadshow Distributors from Amalgamated for $95 million (net of $34.4 million of shareholder loans) in July 2007 implied historical EBITDA of around 6.5 times.

Grant Samuel has considered the forecast for the year ending 30 June 2010 for the Film Distribution division in its analysis. At the request of the directors of VRL neither the forecast earnings nor the multiples of forecast earnings implied by Grant Samuel's valuation have been disclosed in this report, because of commercial sensitivity. However, Grant Samuel considers that the multiples of forecast 2010 earnings implied by its valuation of the Film Distribution division are reasonable.

5.7 Film Production and Music

For the purposes of its estimation of the full underlying value of VRL, Grant Samuel has valued VRL's Film Production and Music interests, comprising a 40.9% interest in VREG and a US$45 million advance to VREG, in the range $50-150 million. VRL shareholders should understand that, for the reasons set out below, Grant Samuel's valuation may not be appropriate in other contexts.

Valuation of the Film Production and Music division is problematic. In particular, potential acquirers of all of VRL may not be interested in acquiring VRL's interests in VREG. The investment characteristics of VREG are substantially different from those of (for example) VRL's Theme Parks division or Radio division. Grant Samuel's valuation of VRL represents an estimate of the price that could be realised by VRL shareholders through an acquisition by some third party of 100% of VRL. Grant Samuel believes that a potential acquirer of all of VRL is unlikely to attribute significant value to VRL's interests in VREG.

However, VRL shareholders should understand that Grant Samuel's assessment of the value of VRL's interests in VREG does not reflect the value that may be generated over time within VREG. VREG has the potential to be substantially more valuable through ongoing development than in the context of a change of control transaction (although there can be no assurance about the ultimate value of VREG, which will depend on numerous factors, including future film performance, which are difficult to forecast). Existing participants in the film production business or specialist investors in the sector could conceivably attribute far more value to VREG than a third party acquirer of all of VRL.

In this context, a notional third party acquirer of VRL is likely to be focussed on the funding structure employed by VREG. While VREG's film library and music catalogue generate reasonably predictable cash flows, these assets sit within a highly geared structure, with free cash flow only available to VREG shareholders once a number of funding commitments are met. These funding commitments include an asset-based film finance facility secured over the film library (drawn to US$721 million as at 30 June 2009), a further facility at a VREG corporate level drawn to US$235 million, and a mezzanine facility of US$45 million advanced to VREG by VRL.

Given the current constraints on capital availability and the reassessment of risk within the global finance industry, there is some doubt as to whether VREG's film finance facility will be extended on its current terms. VREG is considering options for extending or replacing the facility, which could involve the provision of additional equity (either by VRL or third parties). At worst, if the facility is not extended or in some way replaced, and VREG is unable to continue to participate in film productions, VREG has secured funding arrangements which will allow the orderly realisation of the value in the film library and music catalogue over an extended period of time (at least ten years).

On the other hand, if the business does continue in broadly its current form (with VREG continuing to participate with Warner Bros in film productions), the business has considerable potential upside. Given the shortage of capital currently available for film production, parties that are able to continue film production activities have an opportunity to capture significant value. The film library is now a substantial asset of VREG, in which VRL has a 40.9% interest. The VREG film production business has a track record of involvement in some highly successful films

(including *The Matrix Series, The Ocean's Series, I Am Legend, Charlie & The Chocolate Factory, Gran Torino, Mystic River, Cats & Dogs, Yes Man, Two Weeks' Notice, Analyze This, Get Smart and Training Day)* and expectations for upcoming films such as *Sherlock Holmes* are positive. However, it must recognised that judgements regarding the long term earnings of the business are highly subjective.

Grant Samuel's valuation of VRL's Film Production and Music division (including VRL's US$45 million advance to VREG) of $50-150 million has taken into account:

- an indicative DCF analysis undertaken by Grant Samuel, based on forecast free cash flows from the film library and the music catalogue. The DCF analysis assumes that no further films are added to the film library after 30 June 2009. It models the repayment of VREG's existing facilities and suggests that all available free cash flow is ultimately "captured" by the VRL US$45 million mezzanine facility;
- independent valuations of the film library and music catalogue, prepared for financing purposes;
- a recoverability analysis prepared by VRL in relation to its US$45 million advance to VREG;
- the terms on which third party investors contributed equity to VREG;
- the contingent liabilities associated with VREG; and
- the uncertainties associated with extending VREG's financing facilities, which may require the injection of additional equity or other capital by VRL or a third party. (While this uncertainty clearly has a negative impact on the current value of VREG, resolution of this uncertainty through a restructuring of VREG's financing could have a significant positive effect on the value of VREG).

Grant Samuel's valuation of VRL's interests in VREG essentially assumes an orderly realisation of the assets of VREG. It should be clear that this is not VRL's intention for the business. Rather, Grant Samuel's adoption of this approach to valuation reflects a judgement that a potential acquirer of all of VRL would be unlikely to attribute any significant value to the future upside in the VREG business. Whilst a strategic investor in VREG may be prepared to attribute substantially more value to the VREG business, VRL shareholders may not be able to realise this value through a hypothetical takeover offer for VRL. Accordingly, Grant Samuel's valuation effectively represents a wind-up valuation of VREG.

5.8 Corporate Overheads

VRL's corporate overheads for the 2009 financial year totalled $44 million (before depreciation and amortisation). These corporate overheads represent the costs of the VRL head office and include costs associated with:

- senior group executives;
- VRL's status as a listed company (such as directors' fees, the cost of annual reports and shareholder communications, share registry and listing fees); and
- the provision of group services (such as corporate affairs, finance, tax, treasury, audit and human resources).

Corporate overheads exclude costs associated with the management of VRL's operations, which are reflected in the valuation of each division.

Any acquirer of VRL would be able to save the costs incurred by VRL in relation to its public company status. In addition, it is likely that corporate acquirers would be able to extract further savings in terms of senior executive costs and group services costs. For the purposes of this valuation, Grant Samuel has assumed cost savings of approximately $20 million per annum which have been applied to the corporate costs in the 2010 Forecast. On this basis, Grant Samuel has

assumed a capitalised value of residual corporate overheads in the order of $180-200 million net of assumed costs to achieve the savings.

5.9 Other Liabilities

VRL anticipates that Australian Taxation Office audits may occur in the future, and the VRL group is also currently subject to routine tax audits in certain overseas jurisdictions. VRL has a provision for other non-current tax liabilities in its balance sheet as at 30 June 2009. For the purposes of the valuation, Grant Samuel has assumed a liability in the range of $35–55 million.

5.10 Net Borrowings

As at 30 June 2009, VRL had net borrowings of $899.9 million, comprising $979.5 million of borrowings and $79.6 million of cash. This has been adjusted for valuation purposes as follows:

VRL – Net Borrowings ($ million)	
Net borrowings as at 30 June 2009	899.9
Austereo net borrowings as at 30 June 2009	(219.4)
Net proceeds from divestment of Greek and Czech Republic businesses	(84.6)
Net borrowings of Greek and Czech Republic businesses	(10.7)
Cash for working capital purposes (e.g. cash in tills)	20.2
Interim dividend paid in July 2009	8.4
Mark-to-market value of hedge book (after tax)	11.4
Notional proceeds on exercise of outstanding options	(18.0)
Net borrowings for valuation purposes	**607.2**

5.11 Allocation of Underlying Value

Valuing VRL on a per share basis requires an allocation of the estimated underlying value of VRL as between VRL ordinary shares and preference shares. There are a number of factors that suggest that, intrinsically, the preference shares are more valuable than the ordinary shares:

- if any dividend is declared on the ordinary shares, the preference shares are entitled to a dividend of 10.175 cents per share or 3 cents per share more than the ordinary shares, whichever is the greater;
- in the event of an unconditional takeover offer for the ordinary shares, the preference shares may convert to ordinary shares. As a practical matter, it is highly likely that any bidder would extend the offer to the ordinary shares created on conversion of the preference shares;
- holders of preference shares have a priority as to return on capital in a winding up of $0.50 per share and then to participate pari passu with holders of ordinary shares in any surplus; and
- while preference shares have no voting rights in most circumstances, the controlling interest of the Kirby family and Graham Burke means that the voting rights of other ordinary shareholders provide only limited influence.

On the other hand, the preference shares have historically traded at a discount to the price of the ordinary shares, which is consistent with share prices of other companies with both voting and non-voting securities that otherwise have generally similar economic rights. More recently, however, the preference shares have traded broadly in line with the ordinary shares.

Assessments of underlying value aim to estimate the value that would be realised in a change of control. In the event of a takeover of VRL, it is likely that the bidder would extend its offer to the ordinary shares created on conversion of the preference shares. Holders of preference shares would be likely to receive the same price as holders of ordinary shares. Accordingly, Grant Samuel believes that, for the purpose of this analysis, it is appropriate to allocate the estimated full underlying value of VRL equally as between the ordinary and preference shares. On this basis, the estimated underlying value per share (for both ordinary and preference shares) is as follows:

VRL – Underlying Value per Ordinary and Preference Share

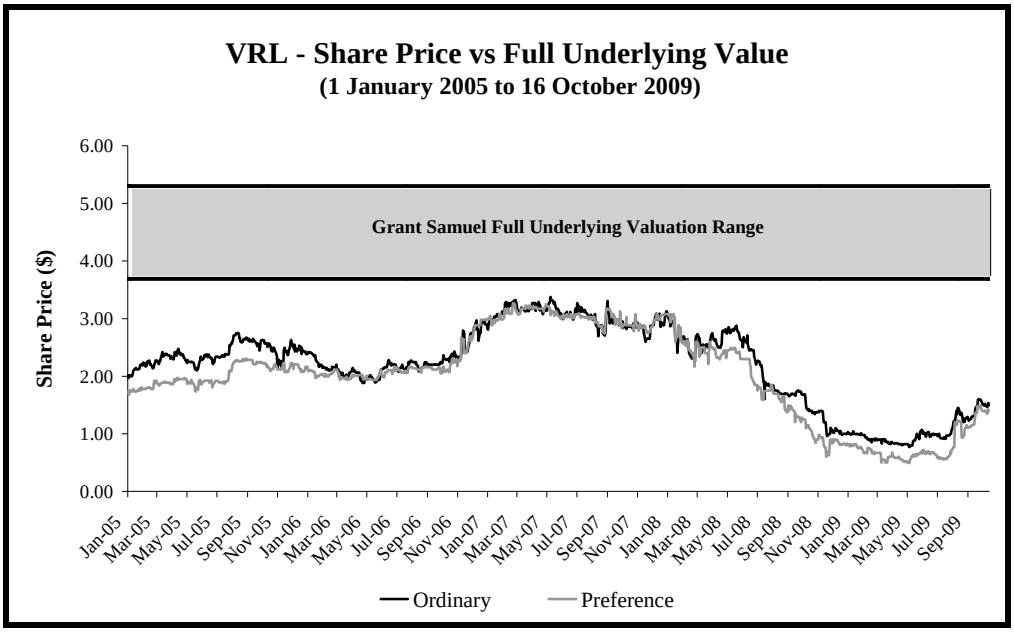
	Low	High
Value of net assets ($ million)	**852.0**	**1,222.0**
Ordinary shares on issue (million)	126.9	126.9
Preference shares on issue (million)	97.7	97.7
Options over ordinary shares (million)	6.0	6.0
Fully diluted total shares on issue (ordinary and preference) (million)	**230.6**	**230.6**
Value per share	**$3.69**	**$5.30**

6 Evaluation of the Proposed Buy-Back

6.1 Underlying Value vs Share Trading Values

Shareholders should understand, in considering whether to participate in the on-market buy-back, that it is almost certain that they will never be able to realise full underlying value for their shares in VRL. Minority holders of ordinary shares and preference shares can only realise full underlying value in circumstances in which a successful takeover offer is made for VRL ordinary shares. Given the controlling shareholding of VRC, shareholders' prospects of realising full underlying value through a takeover offer are remote. It is possible that VRC could seek to privatise VRL at some future time. However, given VRC's existing controlling shareholding and the limited prospects of a competitive offer, there would be no need for any privatisation bid to be made at a price reflecting full underlying value.

VRL ordinary and preference shares have historically traded at much lower prices than the estimated full underlying value of VRL:



Source: IRESS and Grant Samuel analysis

The volume weighted average prices for VRL ordinary and preference shares, over a range of periods, are well below the estimated underlying value:

Volume Weighted Average Prices for VRL Ordinary and Preference Shares

Period to 16 October 2009	Ordinary Shares	Preference Shares
Closing share price	$1.50	$1.42
VWAP for 30 days	$1.49	$1.30
VWAP for 60 days	$1.36	$1.15
VWAP for 90 days	$1.33	$1.04
VWAP for 6 months	$1.15	$0.89
VWAP for 12 months	$1.11	$0.86

Source: IRESS

Moreover, in Grant Samuel's view, shareholders should expect that VRL ordinary and preference shares will continue to trade at a deep discount to underlying value. Portfolio interests in listed companies typically trade at a significant discount to underlying value (this discount is commonly

assumed to be in the approximate range 15-25%), but in the case of VRL there are factors that suggest that the discount is likely to be much deeper than this:

- the 61.4% shareholding of VRC is likely to have a depressing effect on the share price, both in terms of removing any realistic prospect of a fully priced takeover offer for VRL and because investors are commonly cautious about exposure to family controlled companies;
- VRL has relatively high levels of debt, particularly by comparison with its equity market value (although based on earnings and free cash flow levels the gearing is more reasonable). The valuation of VRL on an underlying value basis essentially assumes that an acquirer would refinance or otherwise deal with the debt and accordingly the debt level has no impact on the judgements as to the value of VRL's businesses. In terms of sharemarket values, however, VRL's gearing is likely to have a significant effect, with the financial risk reflected in a lower market rating. This may be exacerbated after the Proposed Buy-Back to the extent that VRL's gearing increases;
- given the modest free float in VRL shares, there is limited liquidity in both the ordinary and preference shares. This illiquidity is compounded by the division of VRL's equity base into ordinary and preference shares;
- there is extremely limited analyst coverage of VRL and limited institutional investment interest;
- while VRL's overall business interests have been rationalised in recent years, the Film Production and Music business in particular is difficult to understand and its debt facilities are subject to refinancing in 2010; and
- Grant Samuel's valuation of VRL assumes that an acquirer could achieve substantial savings of head office and listed company costs, of the order of $20 million per annum. However, these costs will continue to be incurred while VRL continues in its current public company form.

6.2 Factors for Shareholder Consideration

For the reasons set out above, estimates of underlying value have little bearing on shareholders' evaluation of the Proposed Buy-Back. Rather, in considering whether to participate in the Proposed Buy-Back, the key issue for shareholders is whether there are alternatives that offer a reasonable prospect of delivering greater value (having regard to the time value of money) than the price available under the Proposed Buy-Back. Factors that shareholders could consider include:

- recent sharemarket trading prices for VRL ordinary and preference shares;
- dividend expectations;
- factors likely to continue to depress trading prices for VRL ordinary and preference shares, including:
  - VRC's 61.4% controlling shareholding in VRL;
  - the relatively high levels of gearing in VRL;
  - VRL's inefficient capital structure, with the equity base divided as between ordinary and preference shares, and the limited liquidity in VRL ordinary and preference shares;
  - limited analyst coverage of and institutional interest in VRL;
  - the ongoing level of corporate costs that VRL will incur;
  - the "pyramid" structure of VRL with its controlling 52.52% shareholding in Austereo. In addition, any sale of the interest in Austereo by VRL would give rise to a substantial capital gains tax liability which has not been taken into account in the estimate of full underlying value; and

- the minimal disclosure of earnings in relation to the Film Production and Music division due to VRL equity accounting its 40.9% interest, and the inherently volatile nature of the division and complexity of the financing arrangements;

- the risk that the Proposed Buy-Back, to the extent successful, will exacerbate some of these factors, including further reducing trading liquidity and increasing gearing;

- upside factors for the VRL share price:
  - VRL's relatively stable earnings and strong underlying cash flows, based on strong market positions in VRL's key businesses;
  - VRL's leverage to economic recovery; and
  - the possibility that VRL's share price will be supported by expectations of further corporate activity, including the prospect of a buy-out offer for minority shareholdings; and

- the possibility of realising greater value through some buy-out proposal in the future. VRL has flagged that following the Proposed Buy-Back it would be interested in pursuing the acquisition of the outstanding preference shares, although it has not indicated any timeframe for such a transaction. There is clearly a possibility that at some point in the future VRC will seek to fully privatise VRL (although there can be no certainty as to the timing of any privatisation proposal, or whether it will take place at all). Moreover, to the extent that shares are acquired by VRL under the current (or any future) buy-back at a significant discount to underlying value, there will be an effective transfer of value to the remaining shareholdings.

Effectively, holders of VRL ordinary and preference shares will need to compare the certainty of realising cash value in the short term, as offered by participation in the Proposed Buy-Back, with the uncertain prospect of realising superior value in the future. Judgements in this regard will depend on numerous factors including investors' risk tolerance, liquidity requirements, expectations regarding future economic conditions in Australia and overseas, expectations of the future performance of the VRL businesses and other matters. Grant Samuel offers no opinion and makes no recommendation in this regard.

6.3 Shareholder Issues

The decision whether to participate in the Proposed Buy-Back is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposed Buy-Back, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in VRL. This is an investment decision independent of a decision on whether to participate in the Proposed Buy-Back upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services, manages specialist funds and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 415 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) ACA(SA) ACMA and Hannah Crawford BCom LLB CA F Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Warwick Earl BCom LLB, Bo Briedis BCom CA and Sophie Ferris BCom BSci assisted in the preparation of the report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's assessment of the value of VRL. Grant Samuel expressly disclaims any liability to any VRL shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by VRL and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

Grant Samuel has had no involvement in VRL's due diligence investigation in relation to the Explanatory Memorandum and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of VRL.

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with VRL that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the value of VRL.

Grant Samuel commenced analysis for the purposes of this report prior to the announcement of the Proposed Buy-Back. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Proposed Buy-Back.

Grant Samuel had no part in the formulation of the Proposed Buy-Back. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $425,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposed Buy-Back. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 October 2007.

7.4 Declarations

VRL has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving breach of contract, gross negligence or wilful misconduct by Grant Samuel. VRL has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by VRL are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to senior management of VRL and VRL's financial and legal advisers. Certain changes were made to this report as a result of the circulation of the draft reports. In particular, VRL provided additional information in relation to the prospects of the Film Distribution division and the net debt and tax provisions of VRL as at 30 June 2009. This information resulted in an amendment to Grant Samuel's estimate of the underlying value of VRL shares from $4.25–5.75 per share to $3.69–5.30 per VRL share. However, there was no alteration to the methodology or conclusions made to VRL shareholders.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to shareholders of VRL. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 22 October 2009 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
22 October 2009

Grant Samuel & Associates

Appendix 1

Market Evidence - Transactions

1. Theme Parks

Set out below is a summary of transactions involving businesses in Australia, the United States and Japan that are involved in activities comparable to VRL's Theme Parks division over the last four years for which there is sufficient information to calculate meaningful valuation parameters:

Theme Parks - Recent Transaction Evidence

Date	Target	Transaction	Total Transaction Consid-eration[1] (million)	EBITDA Multiple[2]		EBIT Multiple[3]	
				Historical[4] Year 1	Forecast[4] Year 1	Historical[4] Year 1	Forecast[4] Year 1
Mar 2009	USJ Co. Ltd	Takeover by consortium	JPY 132,768	6.9	na	18.0	na
Nov 2007	South Lakeland Parks Limited	Takeover by White Ocean Leisure Limited	GBP 125	12.5	na	na	na
Sep 2007	Sydney Attractions Group	Takeover by VRL	AUD 205	13.7	9.6	35.4	14.8
Jan 2007	Six Flags - 7 parks sold	Acquisition of 7 parks from Six Flags	USD 312	10.4	na	na	na
Jun 2006	MFS Living and Leisure	IPO of MFS Living and Leisure	AUD 282	11.5	9.1	29.4	20.9
May 2006	Warner Bros Australian Theme Parks	Acquisition of Warner Bros interest in the Australian Theme Parks	AUD 637	12.9	na	27.6	na
May 2006	Paramount Parks Inc	Acquisition of Paramount Parks by Cedar Fair	USD 1,240	11.3	11.5	24.0	na
Feb 2006	MFS Living and Leisure	Acquisition of Oceanis by MFS	AUD 152	19.0	9.2	na	na
Jan 2006	Sydney Attractions Group	Acquisition of a 15% stake in Sydney Attractions by VRL	AUD 29[5]	13.1	11.6	17.6	16.1
Jul 2005	Legoland	Blackstone acquisition of Legoland	EUR 375	10.3	na	na	na
May 2005	Merlin Entertainment Inc	Blackstone acquisition of Merlin	GBP 103	7.1	na	na	na

Source: Grant Samuel analysis[6]

A brief summary of each transaction is set out below:

USJ Co Ltd/Private equity consortium

On 10 March 2009, USJ Co. Ltd ("USJ"), a Japanese company engaged in the operation of Universal Studios Japan, announced it had agreed to a full takeover offer from a private consortium of JPY 50,000 for each USJ share. The private consortium was made up of Goldman Sachs Group, MBK Partners and Owl Creek Asset Management. USJ had been suffering from the impact of the global financial crisis which led to significant

1 Total transaction consideration assuming 100% of the company or business had been acquired.

2 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

3 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

4 Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

5 Total transaction consideration represents equity value alone.

6 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

decline in visitation levels at Universal Studios Japan. The private consortium paid 6.9 times historical EBITDA and 18.0 times historical EBIT, which was well below the average for transactions over the last four years. However, the price represented a 28.5% premium to USJ's share price before the offer became public.

South Lakeland Parks Limited/White Ocean Leisure Limited

On 9 November 2007, White Ocean Leisure Limited announced it had entered into agreements to acquire South Lakeland Parks Ltd ("South Lakeland") from White Ocean Leisure Limited for GBP 125 million. South Lakeland operated nine timber lodge and caravan holiday parks in the Lake District and Morecambe Bay regions.

Sydney Attractions Group Limited/VRL

On 5 September 2007, VRL announced its intention to make a cash offer of $6.01 per share to acquire all of the outstanding shares it did not currently own in Sydney Attractions Group Limited ("SAQ"). VRL owned approximately 20% of the issued shares of SAQ at the time. SAQ was an operator of attractions in Sydney including Sydney Aquarium, Sydney Tower, Skywalk and Wildlife World. On 31 October 2007, VRL increased its offer to $6.50 per share with additional dividend participation benefits, implying an enterprise value of approximately $205 million.

Seven amusement parks from Six Flags/PARC 7F-Operations Corporation

On 11 January 2007, Six Flags, Inc. announced it had agreed to sell three of its water parks and four of its theme parks to PARC 7F-Operations Corporation for USD 312 million, consisting of USD 275 million in cash and a note receivable for USD 37 million. The seven parks were estimated to have generated approximately $30 million of EBITDA and 3.6 million attendances in 2006.

IPO of MFS Living and Leisure Group

On 6 June 2006, MFS Living and Leisure Group announced an offer to issue of $175 million new securities at an issue price of $1.00. The purpose of the offer was to pay down debt and complete recent acquisitions. With a forecast income distribution of 10.1 cents per security, the offer was based on a forecast cash yield of 10.1%.

Warner Bros.' interest in Australian Theme Parks/VRL

On 29 May 2006, VRL announced it had signed an agreement with Warner Bros. to acquire all of Warner Bros.' interests in their jointly owned Australian Theme Parks, for $254 million. The transaction also included Warner Bros.' share of associated bank debt of approximately $64.5 million. As a result of the transaction, Village increased its ownership from 50% to 100% of Warner Bros. Movie World, Sea World, Wet 'n' Wild Water World, Australian Outback Spectacular, Paradise Country, Sea World Aviation and Warner Roadshow Studios.

Paramount Parks/Cedar Fair LP

On 22 May 2006, Cedar Fair announced it would acquire the Paramount Parks chain from CBS Corporation for USD 1.24 billion. Paramount's amusement parks include Canada's Wonderland, Toronto, Kings Island, Cincinnati, Kings Dominion, Virginia, Carowinds, North Carolina, and Great America, California.

Oceanis Group/MFS Living and Leisure Group

On 13 February 2006, MFS Living and Leisure Group announced it had entered into a contract to acquire the Melbourne based Oceanis Group, for approximately $150 million. Oceanis Group was the world's largest aquarium owner and operator with key assets including aquariums in Melbourne, Mooloolaba, Busan (South Korea), Shanghai (China) and Bangkok (Thailand).

15% of Sydney Attractions Group/VRL

On 19 January 2005, VRL announced it had acquired a 14.9% stake in SAQ, comprising 3.3 million shares. The acquisition represented a multiple of 13.1 times historical EBITDA and 11.6 times forecast EBITDA, and 17.6 times historical EBIT and 16.1 times forecast EBIT.

Legoland Parks/Blackstone Group

On 13 July 2005, Blackstone Group announced it had acquired the Legoland Parks for €375 million, which it would merge with the assets of the Merlin Entertainments Group. The deal included Legoland's four family theme parks in the United Kingdom, Germany, California and Denmark. Upon completion, Blackstone Group would hold a 70% interest in Merlin Entertainments Group with Billund, the Denmark-based LEGO Group, holding the remaining 30%.

Merlin Entertainment/Blackstone Group

On 23 May 2005, Blackstone Group announced the acquisition of Merlin Entertainment and Merlin management from Hermes Private Equity for GBP 102.5 million. Merlin Entertainment operates 28 visitor attractions across eight European countries.

2. Cinema Exhibition

Set out below is a summary of transactions involving businesses in Australia, the United Kingdom and the United States that are involved in activities comparable to VRL's Cinema Exhibition division over the last ten years for which there is sufficient information to calculate meaningful valuation parameters:

Cinema Exhibition - Recent Transaction Evidence

Date	Target	Transaction	Total Transaction Consid-eration[7] (million)	EBITDA Multiple		EBIT Multiple	
				Historical Year 1	Forecast Year 1	Historical Year 1	Forecast Year 1
Aug 2006	Century Theatres, Inc.	Acquisition of Century Theatres by Cinemark Inc	USD 681	10.7	na	19.2	na
Dec 2004	Hoyts Cinema Group	Acquisition of Hoyts Cinema Group by Publishing and Broadcasting Limited and West Australian Newspapers Holdings Limited	AUD 520	8.0	na	na	na
Jul 2004	AMC Entertainment Inc.	Acquisition of AMC Entertainment Inc. by Marquee Holdings Inc.	USD 1,670	8.7	7.6	18.9	na
May 2003	Village Warner United Kingdom joint venture	Sale by VRL and AOL Time Warner Inc. of the Village Warner United Kingdom joint venture to SBC International Cinemas	GBP 226	8.5	na	na	na
Mar 2003	Australian Multiplex JV 33% Warner Bros. share	Acquisition of Warner Bros.' share in Australian Multiplex JV by VRL and Greater Union Organisation	AUD 300	6.5[8]	na	na	na
Mar 2003	Odeon Cinemas	Acquisition of Odeon Cinemas, owned by Cinven ltd by an investor group led by West LB AG	GBP 431	9.2	na	na	na
Mar 1999	Hoyts Cinema Group Pty Ltd	Acquisition of Hoyts Cinema Group by Consolidated Press Holdings	AUD 625	6.9	na	na	na

Source: Grant Samuel analysis[9]

A brief summary of each transaction is set out below:

Century Theatres/Cinemark

Century Theatres, a Californian based cinema exhibition company with around 79 theatres in 12 states, was sold to Cinemark Inc. in a transaction announced on 7 August 2006. Century Theatres sold for a consideration of USD 681 million.

[7] Total transaction consideration assuming 100% of the company or business had been acquired.

[8] 2003 June year end multiple based on management estimate of normalized EBITDA.

[9] Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

Hoyts Cinema Group/ Publishing and Broadcasting Limited and West Australian Newspapers Holdings Limited

Publishing and Broadcasting Limited ("PBL") and West Australian Newspapers Holdings Limited ("WAN") announced on 14 December 2004 that they had each acquired a 50% equity interest in the Hoyts Group, previously owned by Consolidated Press Holdings. At the time of the transaction, the Hoyts Group operated 377 cinema screens in 47 cinema complexes in Australia and New Zealand; operated an independent film distribution business; and included the Val Morgan cinema advertising business. PBL and WAN will each paid $174 million for a 50% equity interest, and the opening net debt balance of the business was $173 million.

AMC Entertainment Inc./Marquee Holdings Inc.

AMC Entertainment Inc. ("AMC") was purchased by Marquee Holdings, a company owned by J.P Morgan Partners and Apollo Management L.P for equity consideration of USD 722.8 in a deal announced on 22 July 2004. AMC was listed on the American Stock Exchange and operated 232 theatres with 3,554 screens in the United States, Canada, France, Hong Kong, Japan, Portugal, Spain and the United Kingdom at the time of the announcement of the transaction.

Village Warner/SBC International Cinemas

Village Warner, VRL and AOL Time Warner's equal share cinema exhibition circuit joint venture in the United Kingdom, was sold on 14 May 2003 for an aggregate consideration of approximately GBP 226 million. The joint venture was sold to SBC International Cinemas and consisted of 36 cinemas with 384 screens.

Australian Multiplex/VRL & Greater Union Organisation

VRL announced on 11 March 2003 that it had reached an in principle agreement with the Greater Union Organisation ("GUO") to jointly acquire Warner Bros.' one-third interest in their Australian multiplex joint venture for approximately $100 million. The joint venture operated 319 screens in 29 multiplexes across mainland Australia at that time. The acquisition will resulted in Village and GUO each moving from 33.3% to 50% ownership of the joint venture.

Odeon Cinemas/WestLB AG Consortium

Cinven Ltd sold Odeon Cinemas, a business made up of 97 multiplex and city centre cinemas based in the United Kingdom, to a consortium led by WestLB AG for GBP 431 million in cash in March 2003. The consortium comprised WestLB AG, Entertainment Film Distributors Ltd and Rotch Property Group, with Lehman Brothers and WestLB providing GBP 350 million of acquisition financing.

Hoyts Cinema Group/Consolidated Press Holdings

Consolidated Press Holdings announced an offer on 24 March 1999 for listed company, Hoyts Cinema Group, through Consolidated Press Holdings' wholly owned subsidiary, Castwo Pty Limited for a cash consideration of $2.00 per stapled security. On 3 May 1999, the offer was increased to $2.05 cash per stapled security. The acquisition became compulsory on 29 July 1999.

3. Radio

Set out below is a summary of transactions involving businesses in Australia that are involved in activities comparable to VRL's Radio division since 2001 for which there is sufficient information to calculate meaningful valuation parameters:

Radio - Recent Transaction Evidence

Date	Target	Transaction	Total Transaction Consid-eration ($ million)[10]	EBITDA Multiple		EBIT Multiple	
				Historical Year 1	Forecast Year 1	Historical Year 1	Forecast Year 1
Nov 2007	Southern Cross Broadcasting (Australia) Limited	Fairfax Media Limited	1,440	13.0	12.3	15.1	14.1
Jun 2004	RG Capital Radio Limited	Acquisition by Regional Media Pty Limited	233	11.0	10.0	12.8	na
Jul 2003	RedWave Media	Acquisition by West Australian Newspapers Holdings Limited	15	na	14.7	na	na
Feb 2003	4BH AM	Acquisition by Southern Cross Broadcasting (Australia Limited)	10	na	6.7	na	na
Aug 2002	DMG	Acquisition of 25% interest by Daily Mail	446	9.0	na	17.9	na
Mar 2002	NX FM and KO FM	Acquisition of 50% interest by RG Capital	24	12.0	11.5	12.6	12.1
Mar 2001	2UE AM, 4BC AM, Sky Radio	Acquisition by Southern Cross Broadcasting (Australia) Limited	112	94.2	12.7	na	15.8

Source: Grant Samuel analysis[11]

A brief summary of each transaction is set out below:

Southern Cross Broadcasting (Australia) Limited/Macquarie Media Group

On 3 July 2007, Macquarie Media Group Limited ("Macquarie Media") announced the acquisition of all of the issued shares in Southern Cross Broadcasting (Australia) Limited ("Southern Cross") that it did not already own for $17.41 per share, comprising $17.05 cash and a special fully franked dividend of $0.36, by way of a Scheme of Arrangement ("Scheme"). Macquarie Media entered into an agreement whereby, following implementation of the Scheme, Fairfax Media Limited ("Fairfax") acquired from Macquarie Media the metropolitan radio business, the Southern Star television production and associated business, leaving Macquarie Media with regional radio, television and associated businesses.

[10] Total transaction consideration assuming 100% of the company or business had been acquired.

[11] Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

RG Capital Radio/Regional Media

In June 2004, Regional Media Pty Limited, a subsidiary of Macquarie Bank Limited, announced its intention to acquire all of the ordinary shares in RG Capital Radio Limited ("RG Capital") for a cash consideration of $3.00 per ordinary share. RG Capital operated 35 commercial radio broadcasting licenses in 20 regional markets in Queensland, New South Wales, Victoria and Tasmania.

RedWave Media/West Australian Newspapers Holdings Limited

On 11 July 2003, West Australian Newspapers Holdings Limited ("WAN") announced the acquisition of the unlisted Western Australian regional broadcast group RedWave Media Limited ("RedWave Media") for $11.7 million in cash. RedWave Media operated AM and FM radio licences in the north west towns of Karratha, Port Hedland and Broome through two principal radio networks, the Star AM network that targeted an over 35 year old demographic and the WA FM network that targeted the 18 to 35 year old demographic. RedWave Media also operated the Red FM station transmitting to the remote mining areas of the State. The transaction represented the first non-print acquisition for WAN and was viewed as a strategic acquisition with minimal synergies. As RedWave Media was a private company, there is limited historical financial information. The forecast EBITDA multiple appears high and is based on brokers' best estimates of the contribution by RedWave Media to WAN.

4BH/Southern Cross

On 13 February 2003, Southern Cross announced that it had agreed to acquire Brisbane radio station 4BH from DMG Australia for $10.1 million. 4BH broadcasts an "easy listening" format on the AM band to metropolitan Brisbane. The combination of 4BH and Southern Cross' existing news/talk station, 4BC, would have a station share in excess of 16% of the Brisbane radio market, providing an enhanced ratings position and additional synergies through co-locating programming and sharing of resources.

DMG Australia/Daily Mail

On 1 August 2002, Daily Mail announced the acquisition of GWR plc's ("GWR") 25% stake in DMG Australia for approximately GBP 35 million ($101.5 million). Following the acquisition, DMG Australia was 100% owned by Daily Mail. When considering the historical EBITDA multiple of 9.0 times and the historical EBIT multiple of 17.9 times, the following should be taken into account:

- the acquirer was the 75% controlling shareholder and the consideration paid may not have reflected a takeover premium;
- DMG Australia's business comprised capital city radio licences (only some of which were operating at the time of the transaction) and an established operating regional radio network; and
- DMG Australia is the only Australian radio network owner that amortises radio licences. If radio licence amortisation is added back the historical EBIT multiple is significantly lower.

NX FM and KO FM/RG Capital

On 11 March 2002, Austereo Group Limited ("Austereo") announced that it had sold a 50% stake in its two Newcastle radio stations, NX FM 106.9 and KO FM 102.9, to RG Capital for $11.8 million. RG Capital and Austereo formed a joint venture to operate the stations with Austereo overseeing the programming and RG Capital assuming management responsibility.

2UE AM, 4BC AM and Sky Radio/Southern Cross

On 22 March 2001, Southern Cross announced that it had acquired Sydney radio station 2UE, Brisbane radio station 4BC and Sky Radio through the acquisition of all the issued shares in Broadcast Investment Holdings Pty Limited and United Broadcast Holdings Pty Limited, for a total consideration of $89.8 million. Through the acquisition, Southern Cross significantly expanded its news/talk network which consisted of Melbourne's 3AW and 6PR in Perth. The national integrated talk network was expected to provide synergies through higher

advertising appeal, programming synergies and resource sharing. At the time of the acquisition, 2UE was a dominant performer in the Sydney radio market and 4BC was the only commercial news/talk station in the Brisbane radio market. Sky Radio packaged and sold program material produced by 2UE, news and other programs for regional stations.

Appendix 2

Market Evidence - Comparable Listed Companies

1. Theme Parks

The sharemarket ratings of selected listed companies with activities comparable to VRL's Theme Parks division are set out below.

Theme Parks[1] - Sharemarket Ratings of Selected Listed Companies

Company	Market Capital-isation[2] ($ millions)	EBITDA Multiple[3]			EBIT Multiple[4]		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Amalgamated Holdings Limited	748	7.7	6.2	na	10.7	8.2	na
Ardent Leisure Group	441	12.0	42.7	8.0	12.0	42.7	11.7
Living and Leisure Australia Group	101	na	13.8	9.9	na	62.5	29.9
Cedar Fair, L.P.	630	7.0	6.5	7.0	11.2	10.2	11.2
Oriental Land Co. Ltd	6,716	14.5	12.1	12.5	24.8	19.5	19.5
Euro Disney SCA	387	9.8	8.1	10.9	39.9	22.4	64.8
The Walt Disney Company	62,635	6.9	7.1	9.1	8.1	8.5	11.5

Source: Grant Samuel analysis[5]

The multiples shown above are based on sharemarket prices as at 16 October 2009 and do not reflect a premium for control.

All of the companies have a 30 June year end with the exception of Cedar Fair, L.P., which has a 31 December year end, Oriental Land Company Ltd which has a 31 March year end, and The Walt Disney Company and Euro Disney SCA which have September year ends.

A brief description of each company is set out below:

Amalgamated Holdings Limited

Amalgamated Holdings Limited ("Amalgamated") is an entertainment, hospitality, and tourism and leisure company. The company has three main operating divisions being, Entertainment, Entertainment Technology and Hospitality & Leisure. The Entertainment division comprises both domestic and international cinema exhibition activities, including a joint venture with Village Roadshow Limited in the Australian Multiplex business. As at 30 June 2009, Amalgamated had interests in 53 cinemas with 460 screens in Australia, and 70 cinemas with 544 screens in other countries. The Entertainment division comprised over 65% of Amalgamated's total sales in the 2009 financial year. The Entertainment Technology business includes film

1 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent two annual years historical results plus the subsequent forecast year.

2 Market capitalisation based on sharemarket prices as at 16 October 2009.

3 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

4 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

5 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

processing and maintenance activities, whilst the Hospitality and Leisure division owns and operates hotels, resorts and other facilities such as a wildlife park and an entertainment facility.

Amalgamated first listed on the Australian Securities Exchange ("ASX") (ticker AHD.ASX) in 1962, and has a market capitalisation of approximately $748 million. Amalgamated trades on multiples of 6.2 times historical EBITDA and 8.2 times historical EBIT.

Ardent Leisure Group

Ardent Leisure Group ("Ardent") is a company whose principal activity is to invest in the leisure and entertainment property market throughout Australia, New Zealand and the United States. Ardent owns and operates several Australian theme parks, bowling alleys and health clubs together with smaller businesses in Australian marinas and United States family entertainment centres. Ardent's key assets include Dreamworld and WhiteWater World theme parks, located on the Gold Coast, and 49 ten pin bowling centres.

Ardent first listed on the ASX (ticker: AHD.ASX) in 1998 as Macquarie Leisure Trust, and has a market capitalisation of approximately $441 million. Ardent has recently undergone a period of restructure in which it internalised its responsible entity and performed a range of asset sales and capital management initiatives. Ardent currently trades on multiples of 42.7 times historical EBITDA and 8.0 times forecast EBITDA and 11.7 times forecast EBIT.

Living and Leisure Australia Group

Living and Leisure Australia Group ("LLA") (formerly MFS Living and Leisure Group) invests in leisure and recreational assets operating in four business divisions being, Ski Fields, Aquariums, Treetop Walk and Property Development. The key assets of LLA include the operation of ski fields and accommodation facilities at Mt Hotham and Falls Creek Alpine Resorts in Victoria, several aquariums throughout Australia and Asia including the Melbourne aquarium, elevated treetop walks located in Victoria and New South Wales and various property development opportunities.

LLA first listed on the ASX (ticker: LLA.ASX) in 1999 as MFS Living and Leisure Group, and has a market capitalisation of approximately $101 million. LLA was also restructured in 2008 with a $100 million rights issue, and currently trades on multiples of 13.8 times historical EBITDA and 9.9 times forecast EBITDA, and 62.5 times historical EBIT and 29.9 times forecast EBIT.

Cedar Fair, L.P.

Cedar Fair, L.P. ("Cedar") is public company headquartered in Sandusky, Ohio, and one of the largest regional amusement-resort operators in the world. Cedar owns and operates regional amusement park operations, including 11 amusement parks, six outdoor water parks, one indoor water park and five hotels. Cedar's key assets include Cedar Point, Kings Island and Castaway Bay Indoor Waterpark Resort in Ohio, Canada's Wonderland in Toronto, Michigan's Adventure in Michigan and various others throughout the United States.

Cedar first listed on the New York Stock Exchange in April 1987 (ticker: NYSE:FUN) and has a market capitalisation of approximately US$578 million (A$630 million). In the 2009 financial year, Cedar Fair L.P.'s earnings declined, largely due to one-off impairment charges, despite an increase in overall attendances across its amusement parks. Cedar currently trades on multiples of 6.5 times historical EBITDA and 7.0 times forecast EBITDA, and 10.2 times historical EBIT and 11.2 times forecast EBIT.

Oriental Land Company

Oriental Land Company Limited ("Oriental") is a Japan-based company engaged in the operation of theme parks and hotels. The company operates four divisions: the Theme Park division which owns and operates theme parks, the Hotel division which owns and operates Disney Hotel and Palm & Fountain Terrace Hotel, the Retail division which operates Disney stores throughout Japan, and the Other division, which operates monorails, Cirque Du Soleil Tokyo, and various other assets.

Oriental first listed on the Tokyo Stock Exchange in December 1996 (ticker: TYO:4661) and has a market capitalisation of approximately ¥560,086 million (A$6,716 million). In the 2009 financial year, Oriental produced strong results with the opening of the Tokyo Disney Hotel and Cirque du Soleil theatre. Cedar currently trades on multiples of 12.1 times historical EBITDA and 12.5 times forecast EBITDA, and 19.5 times historical EBIT and 19.5 times forecast EBIT.

Euro Disney SCA

Euro Disney SCA ("Euro Disney") is a France based company that is primarily engaged in the operation of Disneyland Park and Walt Disney Studios Park in France. The company also manages seven themed hotels, such as Disneyland Hotel and Hotel New York, two convention centres, the Disney Village entertainment centre and a golf course.

Euro Disney is listed on the Euronext Paris Stock Exchange (ticker: EPA:EDL) and has a market capitalisation of approximately EUR 239 million (A$387 million). In the 2009 financial year, in order to maintain attendance levels at its hotels and theme parks, Euro Disney reduced its prices and experienced a shift in its customer mix to lower spending customers. As at result, Euro Disney's forecast earnings are expected to significantly decline. Euro Disney currently trades on multiples of 8.1 times historical EBITDA and 10.9 times forecast EBITDA, and 22.4 times historical EBIT and 64.8 times forecast EBIT. The large EBIT multiples are primarily the result of Euro Disney's significant historical and forecast depreciation expense.

The Walt Disney Company

The Walt Disney Company ("Walt Disney") is a global entertainment company with four business divisions, being Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products. The Media Networks division consists of domestic broadcast television, cable and radio networks, television production and distribution operations, and internet and mobile operations. The Parks and Resorts division owns and operates the Walt Disney World Resort in Florida, the Disneyland Resort in California, the Disney Vacation Club and various other theme parks. The Studio Entertainment division produces and acquires motion pictures, direct-to-video programming, musical recordings and live stage plays. The Consumer Products division designs, develops, publishes and promotes a range of Disney character based products.

Walt Disney is listed on the New York Stock Exchange (ticker: NYSE:DIS) and has a market capitalisation of approximately US$57 billion (A$62.6 billion). In the most recent financial period, Walt Disney suffered a decline in revenues and earnings as a result of the global financial crisis. Walt Disney currently trades on multiples of 7.1 times historical EBITDA and 9.1 times forecast EBITDA, and 8.5 times historical EBIT and 11.5 times forecast EBIT.

2. Cinema Exhibition

The sharemarket ratings of selected listed companies with activities comparable to VRL's Cinema Exhibition division are set out below.

Cinema Exhibition - Sharemarket Ratings of Selected Listed Companies

Company	Market Capital-isation ($ millions)	EBITDA Multiple			EBIT Multiple		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Amalgamated Holdings Ltd	748	7.7	6.2	na	10.7	8.2	na
Carmike Cinemas, Inc.	166	6.4	6.9	6.4	13.1	14.5	8.2
Cinemark Inc.	1,483	7.1	7.2	6.4	11.9	12.7	11.5
Cineplex Galaxy Income Fund	1,074	12.8	9.3	8.2	33.7	23.3	21.5
Regal Entertainment Group	2,055[6]	6.8	6.5	6.2	10.4	10.5	9.7

Source: Grant Samuel analysis

The multiples shown above are based on sharemarket prices as at 16 October 2009 and do not reflect a premium for control.

All of the North American companies have a 31 December year end, except for Regal Entertainment Group, which had a 1 January year end in 2009. Consequently, the historical multiples reflect full year earnings to 30 June 2009 for Amalgamated Holdings Ltd, to 31 December 2008 for Carmike Cinemas Inc., Cinemark Holdings Inc. and Cineplex Galaxy Income Fund and to 1 January 2009 for Regal Entertainment Group.

A brief description of each company is set out below:

Amalgamated Holdings Ltd

Refer to description provided in Section 1 of this Appendix.

Carmike Cinemas, Inc.

Carmike Cinemas, Inc. ("Carmike") is one of the largest cinema exhibition companies in the United States. As at 30 June 2009, the company had interests in 247 theatres with 2,285 screens located in 35 states. Carmike targets small to mid-size non-urban markets and has digital-based platforms in the vast majority of its theatres. Carmike is listed on the NASDAQ Global Market (ticker CKEC.NASDAQ) and has a market capitalisation of $166 million. Carmike trades on multiples of 6.9 times historical EBITDA and 14.5 times historical EBIT.

Cinemark Holdings, Inc.

Cinemark Holdings, Inc. ("Cinemark") is the second largest motion picture exhibitor in the world (in regard to both attendance and number of operating screens). The company had 424 theatres with 4,889 screens in the United States and Latin America as at 30 June 2009. Cinemark has operations in the United States, Canada, Mexico, Chile, Colombia, Argentina, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Guatemala. Cinemark was listed on the NYSE (CNK.NYSE) on 24 April 2007 and has a market capitalisation of $1,483 million. Cinemark trades on multiples of 7.2 times historical EBITDA and 12.7 times historical EBIT.

[6] Includes A & B common stock.

Cineplex Galaxy Income Fund

Cineplex Galaxy Income Fund ("Cineplex") is the listed vehicle through which Cineplex has control of Canada's largest cinema exhibition business. Cineplex owned, leased or had a joint-venture interest in 1,328 screens in 129 theatres, including 37 screens in four theatres held in joint ventures as at 30 June 2009. Cineplex was listed on the Toronto Stock Exchange (ticker CGX.UN.TSX) on 26 November 2003 and has a market capitalisation of $1,074 million. Cineplex trades on multiples of 9.3 times historical EBITDA and 23.3 times historical EBIT.

Regal Entertainment Group

Regal Entertainment Group ("Regal") is the largest cinema exhibition business in the United States, with 549 theatres and 6,778 screens in 39 states and the District of Columbia as of July 2, 2009. Regal formally operates on a 52-week financial year with each quarter generally consisting of 13 weeks. The company's fiscal year ends on the first Thursday post 25 December, which can result in a 53-week financial year in certain years (such as 2008). Regal was listed on the NYSE (ticker RGC.NYSE) on 9 May 2002 and has a market capitalisation of $2,055 million including its Class B shares. Regal trades on multiples of 6.5 times historical EBITDA and 10.5 times historical EBIT.

3. Radio

The sharemarket ratings of selected listed companies with activities comparable to VRL's Radio division are set out below.

Radio – Sharemarket Ratings of Selected Listed Companies

	Market Capitalisation (million)	EBITDA Multiple			EBIT Multiple		
		Historical Year 2	Historical Year 1	Forecast Year 1	Historical Year 2	Historical Year 1	Forecast Year 1
Austereo	**490**	**7.8**	**8.3**	**8.7**	**8.5**	**9.1**	**9.6**
APN News & Media Limited	1,379	7.4	8.9	10.7	8.3	10.6	12.6
Fairfax Media Limited	4,057	7.3	11.7	9.9	8.5	15.3	12.4
Macquarie Media Group Limited	464	16.3	14.5	8.0	22.7	24.1	10.4

Source: Grant Samuel analysis

The multiples shown above are based on sharemarket prices as at 16 October 2009 and do not reflect a premium for control.

All of the companies have a 30 June year end with the exception of APN News & Media Limited ("APN"), which has a 31 December year end.

A brief description of each company is set out below:

APN News & Media Limited

APN is a diversified media company with operations across Australia and New Zealand in publishing, radio broadcasting, and transit and outdoor advertising and printing. APN was listed on the ASX in 1992 and has a market capitalisation of approximately $1.4 billion.

APN's titles include 23 daily and over 100 non-daily newspapers across Australia and New Zealand. In Australia, APN services the Queensland and northern New South Wales markets, and is the largest regional newspaper publisher in Australia. In New Zealand, APN operates the country's largest metropolitan daily, The New Zealand Herald, as well as the Herald on Sunday, The Aucklander and a number of regional newspapers and mass market magazines.

APN has a 50% interest in the Australian Radio Network which operates 12 radio stations in key metropolitan markets. The programming strategy focuses on two music streams being 'Mix' and 'Classic Hits' which target the key 25 to 54 year old demographic. In New Zealand, APN also owns 50% of The Radio Network which operates 120 stations in New Zealand.

APN also has an outdoor advertising group operating throughout Australasia and also operates print and specialist publishing businesses in Australia and New Zealand. APN's printing operations are located in Brisbane and the Sunshine coast in Australia, and Auckland and Christchurch in New Zealand.

APN trades on multiples of 8.9 times historical EBITDA and 10.7 times forecast EBITDA, and 10.6 times historical EBIT and 12.6 times forecast EBIT.

Fairfax Media Limited

Fairfax Media Limited ("Fairfax") is one of Australia's largest media companies. In May 2007, Fairfax completed its merger with Rural Press Limited, creating the largest integrated metropolitan, rural and regional, print and online digital media company in Australasia, with publications and websites in every State in Australia and throughout New Zealand.

In Australia, mastheads include The Sydney Morning Herald, The Age, The Australian Financial Review, The Canberra Times, BRW, The Sun-Herald and The Land. In New Zealand, mastheads include The Dominion Post, The Press, The Sunday Star-Times, TV Guide, NZ House and Garden and Cuisine.

Fairfax also publishes regional and community newspapers, financial and consumer magazines and several agricultural publications in New Zealand and the United States.

Fairfax has leading online businesses Fairfax Digital in Australia (including the number one online news sites smh.com.au and theage.com.au, and leading classified and transaction websites) and Trade Me and stuff.co.nz in New Zealand.

In November 2007, Fairfax acquired key assets of Southern Cross, including radio stations 2UE in Sydney, 3AW and Magic 1278 in Melbourne, 4BC and 4BH Brisbane and 6PR and 96fm in Perth, Satellite Music Australia and other associated businesses.

Fairfax trades on multiples of 11.7 times historical EBITDA and 9.9 times forecast EBITDA and 15.3 times historical EBIT and 12.4 times forecast EBIT.

Macquarie Media Group Limited

Macquarie Media Group Limited ("Macquarie Media") has media operations on two continents providing more than 10.1 million people with information and entertainment focussed on their local community. Since listing on the ASX in late 2005, Macquarie Media has built a diversified media business with a strong focus on attractive regional markets.

Macquarie Media currently owns a 100% interest in Macquarie Southern Cross Media and a 100% interest in American Consolidated Media.

Macquarie Southern Cross Media is Australia's leading regionally focussed broadcaster, reaching a potential audience of 7.5 million people or 95% of Australia's population outside the mainland State capital cities. In November 2005, at the time of listing on the ASX, Macquarie Media acquired its regional radio operations, previously known as Macquarie Regional Radioworks. Two years later, in November 2007, Macquarie Media successfully acquired Southern Cross and retained the regional free-to-air television operations and divested the metropolitan radio operations, television production and other associated operations to Fairfax. Macquarie Southern Cross Media owns 14 regional free-to air television licences. Macquarie Southern Cross Media also owns and operates the largest commercial radio network in Australia, with 68 commercial radio stations in 38 licence areas in Queensland, New South Wales, Victoria, Tasmania and South Australia. Macquarie Southern Cross Media comprises 86% of Macquarie Media's business portfolio by EBITDA.

American Consolidated Media publishes approximately 100 local newspapers which serve 18 geographic regions across Texas, Oklahoma, Kansas, Maryland, Minnesota, Wisconsin, Ohio, Delaware and Michigan. The publications consist of daily and weekly newspapers, "shopper" publications and specialty publications and associated websites. American Consolidated Media comprises 14% of Macquarie Media's business portfolio by EBITDA.

Macquarie Media trades on multiples of 14.5 times historical EBITDA and 8.0 times forecast EBITDA, and 24.1 times historical EBIT and 10.4 times forecast EBIT.