

AVFM Limited

ACN 009 487 674

NOTICE OF ANNUAL GENERAL MEETING

Incorporating

EXPLANATORY STATEMENT AND PROXY FORM

DATE AND TIME OF MEETING

Tuesday 20th December, 2006 at 11:00am AEST

PLACE OF MEETING

**RACV City Club
Level 2, 501 Bourke Street
Melbourne Vic 3000**

AVFM Limited
(ACN 009 487 674)
("the Company")

NOTICE OF ANNUAL GENERAL MEETING
Tuesday, 20th December 2006

Notice is hereby given that the Annual General Meeting of the Shareholders of the Company will be held at 11:00am AEST on Wednesday, 20th December 2006, at the RACV City Club, Level 2, 501 Bourke Street, Melbourne Victoria.

AGENDA

ORDINARY BUSINESS

2006 Annual Financial Statements

To receive and consider the Director's Report and Financial Report for the year ended 30 June, 2006 and the Auditor's Report on the Financial Report and the consolidated Financial Report.

Resolution 1. Remuneration Report

To consider and, if thought fit, to pass (with or without modification) the following as a non-binding ordinary resolution:

"That the Remuneration Report forming part of the Director's Report be adopted."

Resolution 2. Re-election of Mr. Peter Kennedy

To consider and, if thought fit, to pass (with or without modification) the following as an ordinary resolution:

"That Mr. Kennedy, a director retiring by rotation in accordance with the Company's Constitution, and offering himself for re-election be re-elected a director of the Company".

Resolution 3. Re-election of Mr. Nicholas Pike

To consider and, if thought fit, to pass (with or without modification) the following as an ordinary resolution:

"That Mr Pike, a director retiring by rotation in accordance with the Company's Constitution, and offering himself for re-election be re-elected a director of the Company".

Resolution 4. Ratification of Appointment of Director (Mr. Stuart James)

To consider and, if thought fit, to pass (with or without modification) the following as an ordinary resolution:

“That the Company ratifies the appointment by the directors of Mr. Stuart James as a director of the Company effective from 16 May 2006.”

Resolution 5. Ratification of Appointment of Director (Mr. Christopher Newman)

To consider and, if thought fit, to pass (with or without modification) the following as an ordinary resolution:

“That the Company ratifies the appointment by the directors of Mr. Christopher Newman as a director of the Company effective from 25 October 2006.”

Resolution 6. Approval of AVFM Limited 2006 Employee Share Option Plan

To consider, and if thought fit, to pass (with or without modification) the following resolution as an ordinary resolution:

"That the Company approve the adoption of the AVFM Limited 2006 Employee Share Option Plan (“the 2006 Employee Option Plan”) the terms and conditions of which are set out in Annexure A of the Explanatory Statement which accompanied and formed part of the Notice of Meeting, and approve the Company issuing options in accordance with the 2006 Employee Option Plan as described in the Explanatory Statement."

The Company will disregard any votes cast on Resolution 6 by:

- *a person who may participate in the proposed issue and a person who might obtain a benefit except a benefit solely in the capacity of a holder of ordinary shares, if the respective resolution is passed; or*
- *an associate of that person.*

However, the Company need not disregard a vote on Resolution 6 if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

SPECIAL BUSINESS

Resolution 7. Proposed Issue of Shares and Options to Acquire Prime Financial Group Limited

To consider, and if thought fit, to pass (with or without modification) the following resolution as an ordinary resolution:

“That, the Company approves the issue of up to 41,953,167 fully paid ordinary shares in the capital of the Company at a deemed issue price of ninety cents (\$0.90) each, 2,095,560 ordinary partly paid shares in the capital of the Company Shares (paid to nine-tenths of one

cent (\$0.009) with the balance of eighty-nine and one-tenth cents (\$0.891) to pay) at a deemed issue price of nine-tenths of one cent (\$0.009) each and 1,284,606 options (each to acquire one fully paid ordinary share in the capital the Company having an exercise price of fifty-six cents (\$0.56), a 12 month exercise period from 1 July 2008, and an expiry date of 30 June 2009) as consideration for the Company's proposed acquisition of shares in the capital of Prime Financial Group Limited and options to acquire shares in the capital of Prime Financial Group Limited as described in the Explanatory Statement which accompanied and formed part of the Notice of Meeting."

The Company will disregard any votes cast on Resolution 7 by:

- *a person who may participate in the proposed issue and a person who might obtain a benefit except a benefit solely in the capacity of a holder of ordinary shares, if the respective resolution is passed; or*
- *any associate of those persons.*

However, the Company need not disregard a vote on Resolution 7 if:

- *It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

Resolution 8. Change of Name to "Prime Financial Group Limited"

To consider, and if thought fit, to pass the following resolution as a special resolution:

"THAT the name of the Company be changed to "Prime Financial Group Limited" subject to and with effect from the acquisition of at least ninety percent (90%) of the issued shares of Prime Financial Group Limited [ACN 084 777 739] and Prime Financial Group Limited changing its name, as described in the Explanatory Statement which accompanied and formed part of the Notice of Meeting"

OTHER BUSINESS

To transact any other business which may be lawfully brought forward.

By the Order of the Board.

C. Kennedy
Company Secretary
17 November 2006

The accompanying Notes and Explanatory Statement form part of the Notice of Meeting

NOTES

Voting Entitlements

The Board has determined, in accordance with the Company's Constitution and the Corporations Act 2001, that a shareholder's voting entitlements at the meeting will be taken to be the entitlement of that person shown in the register of members as at 7:00pm on Monday 18th December, 2006.

Special Resolution

Resolution 8 is proposed as a Special Resolution, requiring 75% of the Company's shareholders who are eligible to vote and vote at the Annual General Meeting on the Resolution (in person, by proxy or corporate representative) to vote in favour of the Resolution for it to be passed.

Corporate Representatives

Any corporation which is a member of the Company may authorise (by certificate under common seal or other form of execution authorised by the laws of that corporation's place of incorporation, or in any other manner satisfactory to the chairperson of the Annual General Meeting) a natural person to act as its representative at any general meeting.

Proxies

All proxies must be received by the Company by no later than 48 hours before the time for holding the meeting. A proxy form should be completed on the basis of the enclosed proxy form by following the instructions set out on the reverse of the form (which instructions form part of this notice). The completed proxy form may be delivered by mail or by facsimile transmission as follows:

a) at the Company's share registry:

Computershare Investor Services Pty Ltd
GPO Box 242
Melbourne Victoria 3001; or

b) by facsimile:

Share Registry (03) 9473 2555

(INSERT PROXY FORM)

AVFM LIMITED
ACN 009 487 674
("the Company")

EXPLANATORY STATEMENT TO THE NOTICE OF 2006 ANNUAL GENERAL MEETING

This Explanatory Statement accompanies AVFM Limited's Notice of 2006 Annual General Meeting to be held on Tuesday, 20 December, 2006 at 11.00am. This Explanatory Statement forms part of the Notice of 2006 Annual General Meeting. The Notice of 2006 Annual General Meeting should be read together with these Notes.

In addition to information about the ordinary business to be considered at an Annual General Meeting (Resolutions 1 to 6, both inclusive), this Explanatory Statement also contains information about the Company's proposed acquisition of shares and options of Prime Financial Group Limited (Resolution 7) and the proposal to change the Company's name to "Prime Financial Group Limited" (Resolution 8).

An Independent Expert's Report in respect of the proposed acquisition of shares and options of Prime Financial Group Limited has been commissioned by the Company and is included in this Explanatory Statement as Annexure B.

ORDINARY BUSINESS

2006 Annual Financial Statements

The Annual Financial Statements for the year ending 30 June 2006, comprising the Director's Report and Financial Report for the year ended 30 June 2006 and the Auditor's Report on the Financial Report and the consolidated Financial Report will be laid before the meeting. Shareholders will be given the opportunity to ask questions about or make comments in respect of the Annual Financial Statements and the management of the Company.

Resolution 1. Non-binding resolution to adopt Remuneration Report

Pursuant to the Corporations Act the Annual General Meeting of a listed company must propose a resolution that the Remuneration Report be adopted. The vote on this Resolution is advisory only and does not bind either the directors or the Company.

The Remuneration Report is included in the Annual Report distributed to Shareholders and the Financial Statements to be laid before meeting. Shareholders will be given the opportunity to ask questions about or make comments on the Remuneration Report at the meeting.

Resolution 2. Ratification of appointment of director – Mr Stuart James

Mr. Stuart James was appointed as a director of the Company to fill a casual vacancy on 16 May 2006. In accordance with the Company's constitution, his appointment is to be confirmed at the first Annual General Meeting following his appointment.

Resolution 3. Ratification of appointment of director – Mr Christopher Newman

Mr. Christopher Newman as a director of the Company to fill a casual vacancy on 25 October 2006. In accordance with the Company's constitution, his appointment is to be confirmed at the first Annual General Meeting following his appointment.

Resolution 4. Approval of AVFM Limited 2006 Employee Share Option Plan

The Company is seeking shareholder approval to adopt the AVFM Limited 2006 Employee Share Option Plan, (the "2006 Employee Option Plan"), a copy of which is attached hereto as Annexure A and the terms of which are incorporated by reference into this Explanatory Statement.

The Options will be granted and issued under the 2006 Employee Option Plan at the discretion of the Company's Board of Directors from time to time and may be subject to performance criteria, hurdles and escrow periods, dependant on the recipient and his or her position.

Options granted under the 2006 Employee Option Plan will have such terms and other conditions as are provided for in the 2006 Employee Option Plan, subject to satisfying Listing Rule 7.2, exception 9.

The Board of Directors of the Company believes that the adoption of the 2006 Employee Option Plan is necessary for the Company in order to:

- (a) provide eligible persons with an additional incentive to work to improve the performance of the Company;
- (b) attract and retain eligible persons essential for the continued growth and development of the Company;
- (c) promote and foster loyalty and support amongst eligible persons for the benefit of the Company;
- (d) enhance the relationship between the Company and eligible persons for the long term mutual benefit of all parties; and

By obtaining shareholder approval to adopt the 2006 Employee Option Plan, shares issued under the Plan will not reduce the Company's ability to issue further shares or options up to fifteen (15%) of its ordinary shares in a 12 month period under ASX Listing Rule 7.1 without obtaining further approval from shareholders. No cash will be received from the issue of the options. Use of the funds raised by the exercise of the options will be determined at the time of exercise in accordance with investment and operating environment at the time. The options issued under the 2006 Option Plan will rank pari passu in all respects with the existing granted options of the Company.

By obtaining approval under ASX Listing Rule 7.2 exception 9 the Company may issue shares under the Plan, without the need to obtain approval pursuant to ASX Listing Rule 7.1, for a period of 3 years (subject to the provisions of the ASX Listing Rules).

Resolution 5: Re-election of director – Mr. Peter Kennedy

At each Annual General Meeting of the Company, one third of the directors of the Company (except a Managing Director) must retire from office by rotation, in accordance with the Company's Constitution. No director (except a Managing Director) shall retain office for a period in excess of three years without submitting himself or herself for re-election. A director who retires from office by rotation and is eligible for re-election may offer him or herself for re-election.

Resolution 6: Re-election of director – Mr. Nick Pike

At each Annual General Meeting of the Company, one third of the directors of the Company (except a Managing Director) must retire from office by rotation, in accordance with the Company's Constitution. No director (except a Managing Director) shall retain office for a period in excess of three years without submitting himself or herself for re-election. A director who retires from office by rotation and is eligible for re-election may offer him or herself for re-election.

SPECIAL BUSINESS

Resolution 7. Proposed Issue of Shares and Options to Acquire Prime Financial Group Limited

The Company is seeking the approval of shareholders to issue up to 41,953,167 ordinary fully paid shares in the capital of the Company and 2,095,560 ordinary partly paid shares in the capital of the Company Shares (paid to nine-tenths of one cent (\$0.009) with the balance of eighty-nine and one-tenth cents (\$0.891) to pay) (collectively "Shares") and 1,284,606 options (each to acquire one fully paid ordinary share in the capital the Company having an exercise price of fifty-six cents (\$0.56), a 12 month exercise period from 1 July 2008, and an expiry date of 30 June 2009) ("Options") to acquire the shares ("Prime Shares") and options ("Prime Options") of Prime Financial Group Limited [ACN 084 777 739] ("Prime").

An Independent Expert's Report in respect of the proposed acquisition of the Prime Shares and Prime Options has been commissioned by the Company and is included in this Explanatory Statement as Annexure B. In the report, the Independent Expert concludes the proposed acquisition of the Prime Shares and Prime Options is fair and reasonable to non-associated AVFM shareholders. Greater detail is contained in the Independent Expert's Report and shareholders should have regard to the Independent Expert's Report when considering how to vote on Resolution 7.

Prime's Existing Services

Prime Financial Group Ltd

Established in 1998, Prime Financial Group Ltd is a national diversified financial services and advisory group with a range of equity interests in the financial services sector, including both financial planning and accounting firms. In October 2006, Prime Development Fund Ltd changed its name to Prime Financial Group Ltd to reflect its core business, strategic direction, development and growth.

Prime currently has a 50% equity interest in 28 financial planning businesses in Victoria, NSW, Queensland & Western Australia that are equally owned with accounting firms as well as a 50% investment in two accounting firms in Victoria and NSW. Through its jointly owned financial services entities, Prime has access to 45,000 clients which is considered to represent significant scope for organic growth.

Primestock Securities Ltd

As part of its core operations, Prime has a wholly owned subsidiary, Primestock Securities Ltd (Primestock), an Australian Financial Services Licensee and Investor Directed Portfolio Service Operator. Working together with Prime's accounting firm partners, Primestock provides integrated financial advice to individuals and business owners including the following services:

- financial planning & superannuation advice (wealth creation & retirement planning);
- investment advice – all asset classes (managed & boutique funds, direct equities and tax effective investments);
- life insurance; and
- finance.

Prime has developed a track record built on industry knowledge and expertise with personalised client service.

Clients are derived through Prime's exclusive referral agreements with accounting firm joint venture partners and accounting firms in which Prime has an investment.

The Prime financial services value proposition offers clients a team approach, focusing on value adding, personalised advice and ongoing service in partnership with the clients.

This integrated service has been designed to objectively assist clients with their total financial affairs. Unlike most services available, it brings together a team of advisers in order to seek the most appropriate solution for a clients needs, rather than assessing their circumstances in isolation.

Acquisition of Prime Shares and Prime Options

The Company has entered into a Merger Implementation Agreement with Prime. The Merger Implementation Agreement deals with matters pertaining to the proposed acquisition of Prime and the merger of the respective businesses of Prime and the Company (“the Merger”).

The Merger Implementation Agreement will only become effective if holders of at least 90% of the issued Prime Shares (calculated on a fully diluted basis as if all Prime Options had been exercised) execute agreements for the sale of their Prime Shares (“Share Sale Agreements”) before 22 December 2006 or such later date as may be agreed between Prime and the Company. At the Annual General Meeting the percentage of Prime Shares in respect of which Share Sale Agreements have been executed and are held will be advised at the Annual General Meeting. This information will also be released in an announcement to ASX and published on the Company’s website www.avfm.com.au prior to the Annual General Meeting. If holders of at least 90% of the issued shares of Prime (on a fully diluted basis, as above) do not enter Share Sale Agreements by 22 December 2006 or such later date as may be agreed, the Merger will not proceed, and no Prime Shares or Prime Options will be acquired under the Share Sale Agreements. The Company may, however, consider acquiring Prime Shares or Prime Options from Prime shareholders and optionholders who are willing to sell their Prime Shares or Prime Options (as applicable), subject to entering individual agreements for the acquisition of those Prime Shares or Prime Options.

If Share Sale Agreements are received in respect of greater than 90% of the issued shares of Prime (on a fully diluted basis, as above) and all other conditions for the Merger are met, the Company will issue the proportion of Shares and Options which reflects the respective proportions of the Prime Shares and Prime Options in respect of which executed Share Sale Agreements are received.

The balance of Shares and Options approved for issue if Resolution 7 is passed would remain available for the completion of Share Sale Agreements received within three months of the Annual General Meeting or such longer time as may be permitted if the Company seeks and obtains a waiver from ASX. The Company may also issue Shares and Options to complete acquisitions more than three months after the Annual General Meeting if to do so would not require shareholder approval (for example, because the Company retains the capacity to issue the Shares or Options within the 15% limit established by Listing Rule 7.1, or as otherwise permitted by the Listing Rules and the Company’s Constitution).

Issuing the Shares and Options having obtained shareholder approval by the passing of Resolution 5, will mean the Company’s ability to issue further shares or options up to fifteen (15%) of its ordinary shares in a 12 month period under ASX Listing Rule 7.1 without obtaining further approval from shareholders is preserved.

As the Shares and Options subject to Resolution 7 will be issued to acquire Prime Shares and Prime Options no cash will be raised by the issue. Cash received upon the exercise of Options (if any) will be applied to the Company’s working capital requirements at the time.

It is the Company's intention if the Merger proceeds but not all then issued Prime Shares are acquired to consider the compulsory acquisition of the remaining Prime Shares pursuant to the procedures provided for in the Corporations Act. This will require the Company to make a cash offer for the balance of the Prime Shares. The Company will determine whether it is necessary or appropriate for it to make such an offer when the response of Prime shareholders to the offer of the Company's Shares under the Merger is known, and having regard to the circumstances prevailing at that time. It will also consider the terms upon which an offer may be made for any outstanding Prime Options when an offer for remaining Prime Shares is considered. Upon the Company having acquired all the issued shares of Prime, it will make a cash offer for the remaining Prime Options in accordance with the Corporations Act.

Acceptance of offers of Options to Prime optionholders is not a condition of the Merger.

Shares and Options of the Company will be offered to Prime shareholders and Prime optionholders on the following basis:

For each fully paid Prime Share	1.529293069 fully paid ordinary AVFM Shares
For 6,601,000 partly paid Prime Shares*	7,999,304 fully paid ordinary AVFM Shares and 2,095,560 partly paid ordinary AVFM Shares*
For each Prime Option having an exercise price of eighty-six cents (\$0.86), a 12 month exercise period from 1 July 2008, and an expiry date of 30 June 2009	1.529293069 AVFM Options having an exercise price of fifty-six cents (\$0.56), a 12 month exercise period from 1 July 2008, and an expiry date of 30 June 2009

Fractional entitlements will be rounded down.

* Note: partly paid Prime Shares are each partly paid to \$0.0029 (0.29 cents) with \$0.2829 (28.29 cents) to pay. Partly paid AVFM Shares will be paid to nine-tenths of one cent (\$0.009) with the balance of eighty-nine and one-tenth cents (\$0.891) to pay. The following terms will apply to the AVFM partly paid shares:

- (i) to be called by the Company and due for payment 36 months after the date of effect of the Merger;
- (ii) any or all of the partly paid AVFM Shares may be paid in full or in part at the election of the holder at any earlier time; and
- (iii) the partly paid AVFM Shares will confer fractional voting rights and dividend entitlements in accordance with and subject to the Listing Rules of Australian Stock Exchange Limited.

The fully paid Shares will rank pari passu in all respects with the existing ordinary shares of the Company.

If executed Share Sale Agreements are received for the minimum of 90% of the issued shares of Prime (on a fully diluted basis) 40,800,000 Shares would be issued. If Share Sale Agreements are received in respect of a greater number of Prime Shares, the number of Shares to be issued will increase.

If all offers for Prime Shares and Prime Options are accepted, the Company will issue a maximum of 41,953,167 fully paid Shares, 2,095,560 partly paid Shares and 1,284,606 Options (subject to adjustment for rounding down of any fractional entitlements).

As a result, if all offers for Prime Shares and Prime Options are accepted, the former holders of Prime Shares will hold 33.97% of the issued shares of the Company, which would increase to 34.62% were all Options to be exercised. At about the same time as issuing Shares to former Prime shareholders, as announced on 24 October 2006 the Company will also issue 3,005,639 million Shares as part of the acquisition of 40% of the Lateral Thinking financial planning business ("Lateral"). The proportional holdings of the Company's Shares by former Prime shareholders would be reduced to 33.33% (and to 33.97% if all Options which may be issued to Prime optionholders were exercised) when the diluted effect of issuing Shares for the acquisition of Lateral is taken into account.

No former Prime shareholder will hold greater than 20% of the issued capital of the Company.

In connection with the proposed Merger, it has been agreed that Mr Simon Madder, Mr Peter Madder and Mr Stephen Bennett will be invited to join to the Board of the Company. Mr Simon Madder will become the Chief Executive Officer of the Company. Mr Christopher Newman, a present Director of the Company, will become the Non-Executive Chairman of the Company.

The Merger is conditional upon the Company's shareholders authorising the issue of Shares and Options the subject of Resolution 7, in order for the acquisition of Prime Shares and Prime Options to proceed and for the Merger to be implemented.

The Merger is also conditional upon, among other things, resolutions being passed at a general meeting of the shareholders of Prime which would include waiving any pre-emptive rights Prime shareholders may have in respect of the proposed transfer of Prime Shares and Prime Options to the Company. The outcome of the Prime general meeting will be advised at the Company's Annual General Meeting.

Resolution 8. Change of name to "Prime Financial Group Limited"

It is proposed to change the name of the Company to "Prime Financial Group Limited", to reflect the merged businesses of the Company and Prime, and to capitalise upon the recognition of the name of "Prime Financial Group Limited" in the financial services market. If Resolution 8 is approved, the change of name will not take effect until the Merger is implemented and Prime has changed its name. The change of name by Prime is conditional upon its shareholders passing the required resolution at a general meeting of that company's shareholders prior to the Company's Annual General Meeting. The results of the Prime shareholders' general meeting will be advised at the Company's Annual General Meeting.

Resolution 8 is proposed as a Special Resolution, requiring 75% of the Company's shareholders who are eligible to vote and vote at the Annual General Meeting on the Resolution (in person, by proxy or corporate representative) to vote in favour of the Resolution for it to be passed.

AVFM LIMITED
EXPLANATORY STATEMENT
TO THE NOTICE OF 2006 ANNUAL GENERAL MEETING

ANNEXURE A
EMPLOYEE SHARE OPTION PLAN

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**AVFM Limited
2006 Employee Share Option Plan**

1. The Plan

The purpose of the Plan is to provide Eligible Employees with an incentive to remain with the Group and to improve the longer-term performance of the Company and its return to shareholders. It is intended that the Plan will enable the Group to retain and attract skilled and experienced employees and provide them with the motivation to make the Group more successful.

2. Eligibility

The Board may determine at any time that any Eligible Employee is not entitled to participate in the Plan if the Eligible Employee's participation would be unlawful.

3. Participation

3.1 Invitation to participate

Subject to these rules, the Board may invite any Eligible Employee selected by it to complete an Application Form relating to a specified number of Options allocated to that Eligible Employee by the Board.

3.2 5% Maximum Plan Shares

Subject to any law to the contrary, any Shares issued on exercise of Options pursuant to this Plan shall not form part of any aggregation of Securities issued by the Company pursuant to any other share plans operated by the Company for the purposes of determining the maximum percentage of its issued Securities the Company may issue from time to time pursuant to all share plans it operates.

3.3 Application form

The Board must give to each Eligible Employee invited to complete an Application Form, an Application Form together with the following information relating to the Options allocated to the Eligible Employee:

- (a) the date of grant or intended date of grant;
- (b) the total number of Options to be granted;
- (c) the Exercise Period;
- (d) the Exercise Price or the method of determining the Exercise Price;
- (e) the Exercise Conditions attaching to the Options (if any);
- (f) the Disposal Restrictions attaching to any Shares issued on exercise (if any);
- (g) the Forfeiture Conditions attaching to the Options (if any);

- (h) any other terms and conditions relating to the grant which, in the opinion of the Board, are fair and reasonable but not inconsistent with these rules;
- (i) in respect of the initial grant made to an Eligible Employee, a summary, or a copy of these rules; and
- (j) any other information or documents required to be notified by the Corporations Act or the Listing Rules.

3.4 Participant bound by application form, rules and constitution

By completing and returning the Application Form, a Participant agrees to be bound by the terms of the Application Form, these rules and the Constitution.

4. Grant of options

4.1 Grant of options

The Board may grant Options to a Participant on acceptance of a duly signed and completed Application Form.

4.2 No payment for options

Unless otherwise determined by the Board, no payment is required for the grant of Options under the Plan.

4.3 Options non-transferable

An Option granted under the Plan is not capable of being transferred or encumbered by a Participant, unless the Board determines otherwise. The Company has no obligation to apply for quotation of the Options on the ASX.

4.4 Option certificate

The Company must issue a Certificate to a Participant in respect of the Options granted to that Participant. The Company must comply with the provisions of the Constitution, the Listing Rules and the Corporations Act relating to the issue of the Certificate.

4.5 Limit on issues of new shares

The number of Shares that would be issued were Options granted under this rule 4 to be exercised, when aggregated with the number of Shares that would be issued were each outstanding offer or option to acquire unissued shares, being an offer made or option acquired pursuant to the Plan or any other employee share scheme extended only to employees or directors of the Group, to be accepted or exercised (as the case may be), disregarding any offer made, or option acquired or share issued by way of or as a result of an offer to directors of the Company, must not exceed 5% of the total number of issued Shares as at the time of the grant.

5. Exercise of options

5.1 Manner of exercise of options

The exercise of any Option granted under the Plan may only be effected in such form and manner as the Board may prescribe.

5.2 Exercise conditions

Subject to rules 5.3 and 6, an Option granted under the Plan may only be exercised:

- (a) if all the Exercise Conditions have been met;
- (b) if the Exercise Price has been paid to the Company or as the Company may direct; and
- (c) within the Exercise Period relating to the Option.

An Option granted under the Plan may not be exercised once it has lapsed.

5.3 Control event

Notwithstanding rule 5.2 but subject to Listing Rule 6.23, the Board may determine that an Option may be exercised, whether or not any or all applicable Exercise Conditions have been met, on the occurrence of a Control Event.

5.4 Issue or transfer of shares on exercise

Following exercise of an Option by a Participant, the Company must, within such time as the Board determines, allot and issue or procure the transfer to the Participant of the number of Shares in respect of which the Option has been exercised, credited as fully paid.

5.5 Shares rank equally

Subject to the satisfaction of any applicable Disposal Restrictions, Shares allotted and issued under the Plan must rank equally in all respects with all other Shares from the date of allotment and issue, including:

- (a) voting rights; and
- (b) entitlements to participate in:
 - (i) distributions and dividends; and
 - (ii) future rights issues and bonus issues,

where the record date for determining entitlements falls on or after the date of allotment and issue.

5.6 Quotation on ASX

The Company must apply for quotation on the official list of the ASX of Shares allotted and issued on the exercise of Options as soon as practicable after the allotment and issue of those Shares, so long as Shares are quoted on the official list of ASX at that time.

5.7 Financial assistance

The Company may financially assist a person to pay for the grant of an Option, to pay any Exercise Price for an Option or to acquire Shares under the Plan, subject to compliance with the provisions of the Corporations Act and the Listing Rules relating to financial assistance.

6. Cessation of appointment/employment and lapsing of options

6.1 Resignation, retirement, redundancy and Permanent Disability

Subject to Listing Rule 6.23, if a Participant ceases to be appointed as director or employed by any member of the Group due to his or her resignation, retirement, retrenchment by reason of redundancy or Permanent Disability:

- (a) all Options granted to that Participant as at the date of cessation which are Vested Options may be exercised by that Participant in the 6 month period following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those Vested Options will lapse; and
- (b) all other Options granted to that Participant will lapse, unless the Board determines otherwise, in which event the Board will determine the period within which those other Options may be exercised following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those other Options will lapse.

6.2 Death

Subject to Listing Rule 6.23, if a Participant ceases to be appointed or employed by any member of the Group due to his or her death:

- (a) all Options granted to that Participant as at the date of cessation which are Vested Options may be exercised in the 12 month period following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those Vested Options will lapse; and
- (b) all other Options granted to that Participant will lapse, unless the Board determines otherwise, in which event the Board will determine the period within which those other Options may be exercised following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those other Options will lapse.

6.3 Cessation for any other reason

Subject to Listing Rule 6.23, if a Participant ceases to be appointed or employed by any member of the Group for any reason other than those contemplated by rules 6.1 and 6.2:

- (a) all Options granted to that Participant as at the date of cessation which are Vested Options may be exercised in the 3 month period following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those Vested Options will lapse; and
- (b) all other Options granted to that Participant will lapse, unless the Board determines otherwise, in which event the Board will determine the period within which the Options may be exercised following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which the Options will lapse.

6.4 Liquidation

On Liquidation, all Options which are not Vested Options will lapse.

6.5 Fraud

If, in the opinion of the Board, a Participant (or, where a Participant is a person nominated by an Eligible Employee, the employee or director who nominated the Participant) has acted fraudulently or dishonestly, the Board may determine that any Option granted to that Participant should lapse, and the Option will lapse accordingly.

6.6 Forfeiture conditions

An Option will lapse on the occurrence of a Forfeiture Condition relating to that Option, unless the Board determines otherwise.

6.7 Lost Options

A Participant may submit a request to the Board that an Option granted to that Participant should lapse. On receipt of that request, the Board may determine that the Option should lapse, in which case the option will lapse accordingly.

6.8 End of exercise period

If an Option has not lapsed earlier in accordance with this rule 6, it will lapse at the end of the Exercise Period.

7. Changes in circumstances

7.1 Reconstruction

In the event of any reconstruction (including consolidation, subdivision, reduction, capital return, buy back or cancellation) of the share capital of the Company, the number of Options to which each Participant is entitled and/or the Exercise Price of those Options must be reconstructed in accordance with the Listing Rules. Options must be

reconstructed in a manner which will not result in any additional benefits being conferred on Participants which are not conferred on other shareholders of the Company.

7.2 Participation in new issues

Subject to the Listing Rules, a Participant is only entitled to participate (in respect of Options granted under the Plan) in a new issue of Shares to existing shareholders generally if the Participant has validly exercised his or her Options within the relevant Exercise Period and become a Shareholder prior to the relevant record date, and is then only entitled to participate in relation to Shares of which the Participant is the registered holder.

7.3 Adjustment to exercise price - rights issues

Subject to the Listing Rules, if there is a Pro Rata Issue (except a Bonus Issue) to the holders of Shares, the Exercise Price of an Option will be reduced according to the following formula:

$$O' = O - \frac{E[P - (S + D)]}{N+1}$$

where:

- O' = the Exercise Price immediately following the adjustment;
- O = the Exercise Price immediately prior to the adjustment;
- E = the number of Shares into which one Option is exercisable;
- P = the average market price per Share (weighted by reference to volume) during the 5 trading days ending on the day before the ex rights date or ex entitlements date;
- S = the subscription price for a Share under the Pro Rata Issue;
- D = any dividend due but not yet paid on a Share (except any Share to be issued under the Pro Rata Issue); and
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

7.4 Adjustment to number of underlying securities - bonus issues

Subject to the Listing Rules, if there is a Bonus Issue to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the Bonus Issue.

8. Amendment

Subject to the Listing Rules, these rules may be amended or supplemented by resolution of the Board. Unless the resolution of the Board expressly states otherwise, any

amendment or supplement to these rules will not apply to any Options granted under these rules which have not yet been exercised.

9. Powers of the Board

9.1 Powers of the Board

The Plan will be managed by the Board, which will have power to:

- (a) determine appropriate procedures for the administration of the Plan consistent with these rules;
- (b) resolve conclusively all questions of fact or interpretation arising in connection with the Plan;
- (c) determine matters falling for determination under these rules in its discretion having regard to the interests of and for the benefit of the Company;
- (d) exercise the discretions conferred on it by these rules or which may otherwise be required in relation to the Plan; and
- (e) delegate to any one or more persons (for such period and on such conditions as it may determine) the exercise of any of its powers or discretions arising under the Plan.

9.2 Indemnification

The Company must indemnify, and keep indemnified, to the full extent permitted by law, each person who is or has been a director or alternate director of the Company against all proceedings, actions, claims, demands, losses, liabilities, damages, costs and expenses which may be made, brought against, suffered or incurred by the person arising directly or indirectly out of or in connection with the administration of the Plan.

9.3 Commencement of Plan

The Plan will take effect on and from such date as the Board may resolve.

9.4 Termination or suspension of Plan

The Board may terminate or suspend the operation of the Plan at any time.

9.5 Resolution to terminate, suspend, supplement or amend

In passing a resolution to terminate or suspend the operation of the Plan or to supplement or amend these rules, the Board must consider and endeavour to ensure that there is fair and equitable treatment of all Participants.

10. Powers of the administrator

10.1 Appointment of administrator

The Board may appoint an Administrator and may determine the terms and conditions of the Administrator's appointment. The Board may remove the Administrator.

10.2 Role of administrator

The Administrator must administer the Plan in accordance with these rules and any procedures determined by the Board and agreed to as between the Board and the Administrator.

11. Contracts of employment and other employment rights

11.1 Discretion of board

It is a condition of these rules that the Plan may be terminated at any time at the discretion of the Board and that no compensation under any employment contract will arise as a result.

11.2 No right to grant of options

Participation in the Plan does not confer on any Eligible Employee any right to a grant of Options.

11.3 Calculation of employee benefits

The value of the Options do not increase a Participant's income for the purpose of calculating any employee benefits.

11.4 No right to future employment etc.

Participation in the Plan does not confer on any Participant any right to future employment and does not affect any rights which the Company may have to terminate the employment of any Participant.

11.5 Acknowledgment by Participant

It is acknowledged and accepted by each Participant that the terms of the Plan do not form part of the terms and conditions of the Participant's employment contract, nor do the terms of the Plan constitute a contract or arrangement (including any related condition or collateral arrangement) in relation to the Participant's employment contract.

12. Connection with other plans

Unless the Board otherwise determines, participation in the Plan does not affect, and is not affected by, participation in any other incentive or other plan operated by the Company unless the terms of that other plan provide otherwise.

13. Notices

Any notice or direction given under these rules is validly given if it is handed to the person concerned or sent by ordinary prepaid post to the person's last known address or given in any reasonable manner which the Board from time to time determines.

14. General

Notwithstanding any rule, Shares may not be allotted and issued, acquired, transferred or otherwise dealt with under the Plan if to do so would contravene the Corporations Act, the Listing Rules, or any other applicable laws.

15. Plan costs

15.1 Plan Costs

Unless otherwise determined by the Board, the Company must pay all costs, charges and expenses relating to the establishment and operation of the Plan, including all costs incurred in or associated with an allotment, issue or acquisition of Shares for the purposes of enabling Participants to exercise Options granted to them under the Plan.

15.2 Reimbursement

The Company and any Associated Body Corporate of the Company may provide money to the trustee of any trust or any other person to enable them to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by the Corporations Act. In addition, the Company may require any Associated Body Corporate to enter into any other agreement or arrangement as it considers necessary to oblige that Associated Body Corporate to reimburse the Company for any amounts paid by the Company in connection with this Plan, directly or indirectly, in relation to any employee or director of that Associated Body Corporate.

16. Overseas eligible employees

The Company at the Board's discretion may:

- (a) grant options to Eligible Employees and Participants who are resident outside of Australia; and
- (b) make regulations for the operation of the Plan which are not inconsistent with these rules to apply to Eligible Employees and Participants who are resident outside of Australia.

17. Governing law

The laws of Victoria, Australia, govern these rules.

18. Definitions and interpretation

18.1 Definitions

In this document, unless the context requires otherwise:

Accounting Standards means the Australian Accounting Standards from time to time and if and to the extent that any matter is not covered by Australian Accounting Standards means generally accepted accounting principles applied from time to time in Australia for a business similar to the Business;

Administrator means the person (if any) selected by the Board to carry out the day to day administration of the Plan as contemplated by rule 10.1;

Application Form means the form that the Board determines is to be used by an Eligible Employee to apply for Options under the Plan;

Associated Body Corporate of the Company means each:

- (a) related body corporate of the Company, within the meaning of section 50 of the Corporations Act;
- (b) body corporate that has voting power in the Company of not less than 20%; or
- (c) body corporate in which the Company has voting power of not less than 20%,

where “voting power” has the meaning in section 610 of the Corporations Act;

ASX means Australian Stock Exchange Limited (ACN 008 624 691);

Board means the board of directors of the Company or a committee appointed by the board of directors of the Company;

Bonus Issue means a Pro Rata Issue of Shares to holders of Shares for which no consideration is payable by them;

Certificate means, in relation to a Participant, the certificate or statement (in a form approved by the Board) issued to the Participant which discloses the number of Options entered in the register of Option holders in the name of the Participant;

Company means AVFM Development Fund Limited ACN 084 777 739;

Constitution means the constitution of the Company;

Control of an entity means having the right:

- (a) to vote 50% (or more) of the votes that can be cast on the election or removal of the entity’s directors;
- (b) to appoint or remove directors who possess 50% (or more) of the votes exercisable by all directors of the entity; or

- (c) to 50% (or more) of the profits or distributions of the entity or of its net liquidation proceeds.

For this definition, if the entity does not have a board of directors, 'director' means a member of the entity's governing body with a role similar to a board of directors;

Control Event means any of the following:

- (a) an offer is made by a person for the whole of the issued ordinary share capital of the Company (or any part as is not at the time owned by the offeror or any person acting in concert with the offeror) and after announcement of the offer the offeror (being a person who did not Control the Company prior to the offer) acquires Control of the Company;
- (b) any other event occurs which causes a change in Control of the Company; or
- (c) any other event which the Board reasonably considers should be regarded as a Control Event;

Corporations Act means *Corporations Act 2001 (Cth)*;

Disposal Restrictions means, in relation to an Option, the restrictions (if any) determined by the Board that are required to be satisfied before a Share acquired as a result of the exercise of the Option by the Participant can be sold, transferred or otherwise dealt with by a Participant;

Eligible Employee means an employee or subject to shareholder approval a director of any member of the Group who is determined by the Board to be an Eligible Employee for the purposes of the Plan, or any other person who is determined by the Board to be an Eligible Employee for the purposes of the Plan;

Exercise Conditions means, in relation to an Option, the period of time, performance hurdles and other conditions (if any) determined by the Board that are required to be satisfied before the Option can be exercised;

Exercise Period means, in relation to an Option, the period in which the Option may be exercised specified by the Board under rule 3.3, subject to any variation under rules 5.3 and 6;

Exercise Price means a price being at least 20% or more above the Market Price of the Shares immediately prior to the date a participant is invited to complete an Application Form relating to the Option, or any other amount that is specified by the Board at the time of issuing applications for the Options, subject to any adjustment under Listing Rule 7.3;

Forfeiture Conditions means, in relation to an Option, the conditions (if any) determined by the Board that will result in the Option lapsing if satisfied;

Group means the Company and each Associated Body Corporate of the Company;

IPO Price means the price per Share at which Shares are offered under the prospectus issued in connection with the initial public offering of Shares in the Company;

Liquidation means the passing of a resolution for voluntary winding up, or the making of an order for the compulsory winding up of the Company;

Listing Rules means the listing rules (as defined in the Corporations Act) made or adopted by the ASX;

Market Price means, in relation to an Option, the volume weighted average market price of Shares sold on the ASX on the 5 trading days immediately before the date of determination;

Option means a right to subscribe for or acquire a Share, subject to any adjustment under rule 7.4;

Participant means an Eligible Employee who has been invited to participate in the Plan and any other person who is nominated by that Eligible Employee (following receipt of an invitation by the Board under rule 3.1) and who is determined by the Board to be a Participant for the purposes of the Plan;

Permanent Disability means, in relation to a Participant, the inability, by reason of physical condition, mental illness or accident, of the Participant to perform substantially all of the duties of the position in which the Participant has been employed or appointed (as determined by the Board);

Plan means the AVFM Limited 2006 Share Option Plan established and operated in accordance with these rules;

Pro Rata Issue means an issue which has been offered to all holders of Shares on a pro rata basis;

Securities has the meaning as provided in the Listing Rules;

Share means a fully paid ordinary share in the capital of the Company; and

Vested Option means an Option in respect of which all Exercise Conditions have been met or which are otherwise exercisable (including as contemplated by rules 5.3 and 6).

18.2 Interpretation

In these rules, unless the context otherwise requires:

- (a) a reference to any thing (including an amount or a provision of this document) is a reference to the whole and each part of it;
- (b) the singular includes the plural, and vice versa;
- (c) the word 'person' includes an individual, a body corporate, a firm, an unincorporated body, a society, an association and an authority;
- (d) a reference to a particular person includes their legal personal representatives, administrators, successors, substitutes and permitted assigns;
- (e) a reference to 'costs' includes charges, expenses and legal costs;

- (f) a reference to a “rule” or “these rules” is to the rule or these rules (as the case may be) as amended or replaced;
- (g) a reference to the Constitution includes a reference to any provision having substantially the same effect which is substituted for or replaces the Constitution;
- (h) where a Participant is a director of any member of the Group, but is not also an employee of any member of the Group, a reference to the employment with any member of the Group of that Participant is a reference to that Participant holding office as a director of any member of the Group;
- (i) where a Participant is a person nominated by an Eligible Employee, a reference to the employment with any member of the Group of that Participant is a reference to the employment with any member of the Group of that Eligible Employee;
- (j) a Participant does not cease to be employed by any member of the Group where the Participant ceases to be employed by one member of the Group but commences employment with another member of the Group provided that the new employment commences within 60 days from the date of termination or such other period as the Board may determine by notice in writing;
- (k) a reference to ‘law’ means statute law, common law and equitable principles;
- (l) a reference to a particular law includes that law and any subordinate legislation (such as regulations) under it, in each case as amended, replaced, re-enacted or consolidated;
- (m) a reference to an accounting term is to that term as it is used in the Accounting Standards;
- (n) a reference to ‘dollars’, ‘\$’ or ‘A\$’ is to the lawful currency of Australia;
- (o) a time means that time in Melbourne, Australia;
- (p) a reference to a day or a month means a calendar day or calendar month;
- (q) if a period of time starts from a given day (or event), it is to be calculated exclusive of that day (or the day the event occurs);
- (r) the masculine includes the feminine, and vice versa;
- (s) the meaning of any general language is not restricted by any accompanying example and the words ‘includes’, ‘including’ ‘such as’ or ‘for example’ (or similar phrases) are not words of limitation; and
- (t) headings in this document are for convenience only and do not affect its meaning.

- (u) If (but for this rule) a provision of this document would be illegal, void or unenforceable or contravene the law, this document is to be interpreted as if the provision was omitted.

AVFM LIMITED
EXPLANATORY STATEMENT
TO THE NOTICE OF 2006 ANNUAL GENERAL MEETING

ANNEXURE B
INDEPENDENT EXPERT'S REPORT