

**NOTICE OF ANNUAL GENERAL MEETING**  
**Australian Pure Fruits Limited (ACN 009 104 330)**

Notice is hereby given that the Annual General Meeting of the shareholders of Australian Pure Fruits Limited will be held at 677 The Boulevard, Eaglemont, Victoria on Friday 28 November 2003 at 9.00am.

**BUSINESS:**

**A. ACCOUNTS AND REPORTS:**

To table the financial report of the Company and the related reports of the directors and auditors for the year ended 30 June 2003 and to provide members with the opportunity to raise any issues or ask any questions generally of the Directors.

**B. RESOLUTIONS**

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. **Re-election of Hal Christiansen**

*That Hal Christiansen, a director retiring by rotation in accordance with the Company's Constitution, and being eligible and having signified his candidature for Office be and is hereby re-elected a Director of the Company.*

2. **Re-election of Julian Little**

*That Julian Little, a director retiring by rotation in accordance with the Company's Constitution, and being eligible and having signified his candidature for Office be and is hereby re-elected a Director of the Company.*

3. **Election of Ian Christiansen**

*That, Ian Christiansen, a director appointed by the Board since the date of the last annual general meeting of the Company, and being eligible and having signified his candidature for Office be and is hereby re-elected a Director of the Company.*

4. **Election of Tristan Fischer**

*That, Tristan Fischer, a director appointed by the Board since the date of the last annual general meeting of the Company, and being eligible and having signified his candidature for Office be and is hereby re-elected a Director of the Company.*

5. **Employee Option Plan**

*'That the Australian Pure Fruits Limited Employee Option Plan described in the explanatory notes to the notice which convened the General Meeting and in the Rules of the Australian Pure Fruits Limited Employee Option Plan tabled at the meeting and signed by the Chairman for identification be approved and that any issue of options over ordinary shares in the Company under the Australian Pure Fruits Limited Employee Option Plan be approved as an exception to Listing Rule 7.1 of the ASX Listing Rules.'*

6. **Grant of Options to Julian Little, executive director**

*'That approval is given for the grant of*

- (a) 250,000 options over unissued shares in the capital of the Company to or for the benefit of Julian Little, an executive director of the Company; and*
- (b) 650,000 options over unissued shares in the capital of the Company to or for the benefit of Julian Little, an executive director of the Company, such options to be exercisable only on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network*

*on the terms set out in the explanatory notes to the notice which convened the General Meeting.'*

7. **Grant of Options to Peter McDougall, executive director**

*'That approval is given for the grant of*

- (a) 250,000 options over unissued shares in the capital of the Company to or for the benefit of Peter McDougall, an executive director of the Company; and*
- (b) 650,000 options over unissued shares in the capital of the Company to or for the benefit of Peter McDougall, an executive director of the Company, such options to be exercisable only on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network*

*on the terms set out in the explanatory notes to the notice which convened the General Meeting.'*



## **EXPLANATORY NOTES**

### **RESOLUTIONS 1 AND 2 – RE-ELECTION OF HAL CHRISTIANSEN AND JULIAN LITTLE AS DIRECTORS**

Article 81 of the Constitution requires one third of directors (except for the Managing Director) to retire each year (by rotation). Hal Christiansen and Julian Little retire this year in accordance with this Article and are permitted to seek re-election. Personal particulars of Hal Christiansen and Julian Little are set out in the Board of Directors information included in the Annual Report.

### **RESOLUTION 3 AND 4 – ELECTION OF IAN CHRISTIANSEN AND TRISTAN FISCHER AS DIRECTORS**

Article 79 of the Constitution enables the directors to appoint new directors of the Company. Any director so appointed shall hold office until the next general meeting following their appointment and shall be eligible for election at that meeting. Ian Christiansen and Tristan Fischer have been appointed as directors of the Company since the last annual general meeting and accordingly offer themselves for re-election. Personal particulars of Ian Christiansen and Tristan Fischer are set out in the Board of Directors information included in the Annual Report.

### **RESOLUTION 5 – EMPLOYEE OPTION PLAN**

The Company's existing Employee Option Plan was summarised in the Company's initial public offering Prospectus dated 9 March 2000. The Board proposes that the existing Employee Option Plan be replaced with the Employee Option Plan referred to under Resolution 5.

#### **5.1 General**

The terms of the Plan are summarised under Explanatory Note 5.3 below.

Subject to a number of exceptions, Listing Rule 7.1 of the ASX Listing Rules limits the number of securities that the Company may issue without shareholder approval in any 12 month period to 15% of its issued securities.

There is an exception to Listing Rule 7.1 where shareholders have approved the issue of securities under an employee incentive scheme within three years before the date of issue.

Accordingly shareholders are asked to approve the issue of options under the proposed Employee Option Plan as an exception to Listing Rule 7.1

No options have been issued under the existing Employee Option Plan and accordingly no options have been exercised or expired pursuant to the Rules of the existing Employee Option Plan.

## 5.2 **Objectives of Plan**

The objectives of the Employee Option Plan are as follows:

- (a) To assist in giving an incentive to employees of the Company and its subsidiaries to lift the performance of the Company and maximise the price of the Company's shares; and
- (b) To assist in attracting and retaining employees.

## 5.3 **Summary of Key Terms of Employee Option Plan**

### (a) **Eligibility**

The Board may issue options under the Plan to any employee of the Company and its subsidiaries, including executive directors and non-executive directors;

### (b) **General Terms of the Options**

Options will be issued free of charge, unless the Board determines otherwise.

Each option is to subscribe for one Share and, when issued, the Share will rank equally with other Shares.

The options are not transferable.

Quotation of the options on the ASX will not be sought but the Company will apply to the ASX for official quotation of Shares issued on the exercise of options.

Options may be granted subject to conditions specified by the Board which must be satisfied before the option can be exercised.

(c) **Exercise of Options**

Unless the terms on which an option was offered specify otherwise, an option may be exercised at any time after two years from the date it is granted, provided the employee is still employed by the Company.

An option may also be exercised in special circumstances, that is, at any time within six months after the employee's death, total and permanent disablement, retirement or retrenchment.

An option lapses upon termination of the employee's employment by the Company and, unless the terms of the offer of the option specify otherwise, lapses five years after the date upon which it was granted.

(d) **Exercise Price**

The exercise price per Share for an option will be the amount determined by the Board at the time of the grant of the option.

(e) **New Issues of Securities**

Option holders will not be entitled to participate in any new issue of securities in the Company unless they exercise their options prior to the record date for the determination of entitlements to the new issue.

(f) **Bonus Issues**

If the Company makes a bonus issue of securities to ordinary shareholders, each unexercised option will, on exercise, entitle its holder to receive the bonus securities as if the option had been exercised before the record date for the bonus issue.

(g) **Rights Issues**

If the Company makes a pro-rata rights issue of Shares for cash to its ordinary shareholders, the exercise price of unexercised options is adjusted to reflect the diluting effect of the issue.

(h) **Capital Reorganisations**

If there is any reorganisation of the capital of the Company, the number of options and their exercise price will be adjusted in accordance with the Listing Rules.

(i) **Limit on Number of Options**

The maximum number of options on issue under the Plan must not at any time exceed 10% of the total number of Shares on issue at that time.

5.4 **Copies of Plan**

A copy of the rules of the proposed Australian Pure Fruits Limited Employee Option Plan is available for inspection at the registered office of the Company and will be sent free of charge to any shareholder on request.

5.5 **Voting Exclusion Statement**

The Company will disregard any votes cast on resolution 5 by:

- (a) A director of the Company; and
- (b) Any associate of a director of the Company.

However, the Company need not disregard a vote if:

- (a) 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
- (b) It is cast by the person chairing the meeting as Proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the Proxy decides.

**RESOLUTION 6 - GRANT OF OPTIONS TO JULIAN LITTLE, EXECUTIVE DIRECTOR**

Approval is sought to grant options to Julian Little, executive director of the Company on the terms and conditions set out below:

**Tranche 1**

250,000 options

**Tranche 2**

650,000 options

Shareholder approval is sought pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

It is not proposed that these options be issued pursuant to the Company's Employee Option Plan.

#### 6.1 **Supporting Information**

The Board is of the view that the longer term performance incentive component of its executive directors' remuneration packages should be closely aligned to that of the total return to shareholders.

On 21 March 2003 the Board resolved that, subject to obtaining shareholder approval, the executive directors, including Julian Little, would be issued with the options set out above.

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

#### 6.2 **Number of Options**

The number of options and the terms applicable to them are designed to provide a continuing incentive for Julian Little to produce value for shareholders and reward him if he is successful. The Board of the Company has agreed that, subject to obtaining shareholder approval, the Company will issue 900,000 options to Julian Little in two tranches:

- (a) Tranche 1 of the options are proposed to be issued as a reward for past performance and are entitled to be exercised immediately upon their issue.

At 21 March 2003, the Board resolved that tranche 1 of the options be issued as the executive directors, including Julian Little, had been working tirelessly on a number of existing and new projects, including the acquisition and integration of DialTime Pty Ltd with the Company's existing business and the development of an Australia wide bill payment service which included negotiating a Heads of

Agreement with the Australian Newsagents Federation and the purchase of the Service ATM bill payment network from Coles Myer Limited.

The Company's net profit for the financial year ending 30 June 2002 was \$256,077. The Company's net profit for the financial year ending 30 June 2003 was \$1,083,427. The Company's share price as at 30 June 2002 was 28 cents. The Company's share price as at 30 June 2003 was 65 cents.

- (b) Tranche 2 of the options shall be entitled to be exercised on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network.

The Heads of Agreement with the Australian Newsagents Federation and the agreement with Coles Myer Limited have now been executed. The Board is of the view that the achievement of 2,000 Bill Express sites will give the Company sufficient market penetration and the resulting economies of scale will increase the Company's revenue and profitability. The Company has currently achieved approximately 1,550 sites, comprising of approximately 1,100 Bill Express sites in newsagents and 450 Coles Supermarkets (Service ATM) sites.

The Company will not be raising any funds as a consequence of the grant of the Options but will raise funds if the Options are exercised. If all the tranche 1 options are exercised the Company would receive \$75,000. If all of the tranche 2 options are exercised, the Company would receive an additional \$195,000. The Options are to be granted to provide an incentive to Julian Little to continue to provide dedicated and ongoing commitment to the Company.

In order for the Company to rely on shareholder approval of the issue of options pursuant to ASX Listing Rule 10.11, the Company must issue the options on or before one month after date of meeting.

### 6.3 **Exercise Price**

The exercise price of each of the options is \$0.30. The exercise price was set by the Board at 21 March 2003.

The Company's share price as at 17 March 2003 was 15.2 cents. The Company's shares were suspended from quotation from 17 March 2003 until 16 May 2003. The latest available trading price of shares on ASX was 69 cents on 28 October 2003.

The average share price over the last 12 months, based on monthly closing prices, was 47 cents.

### 6.4 **Exercise of Options**

The Options issued pursuant to tranche 1 are exercisable immediately. The Options issued pursuant to tranche 2 are exercisable upon the Company achieving the performance targets described in 6.2 above. Any options that remain unexercised shall expire on 30 May 2008.

If all of the Options pursuant to resolution 6 are exercised, the total shares on issue shall increase from 21,674,448 to 22,574,448, and the shares now on issue would then comprise 96% of the total shares on issue.

If all of the Options pursuant to resolutions 6, 7, 8 and 9 are exercised, the total shares on issue shall increase from 21,674,448 to 25,274,448, and the shares now on issue would then comprise 85.8% of the total shares on issue.

### 6.5 **Quotation of Option**

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

### 6.6 **Corporations Act**

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to any of its related parties unless a relevant exception applies.

The term *financial benefit* is widely defined and includes the issue of securities such as options. The term *related party* includes a director of the Company.

The prohibition does not apply where a resolution is passed by the Company permitting the benefit to be given.

Section 219 of the Corporations Act requires the following information to be provided to shareholders:

- (a) the related party to whom Resolution 6 will permit a financial benefit to be given is:
  - Julian Little
- (b) the financial benefit to be given pursuant to Resolution 6 is 900,000 options to Julian Little;
- (c) the Options are to be issued for no consideration on the terms and conditions as set out in paragraph 6.2 and 6.3 of this Explanatory Statement;
- (d) Mr Tristan Fischer (the present director of the Company, excluding Dugal McDougall, Julian Little, Hal Christiansen, Ian Christiansen and Peter McDougall) recommends the approval of Resolution 6 by shareholders because the grant of the Options will provide an incentive for the services that will be provided by Julian Little to the Company. It considers this form of incentive to be cost effective and for the long term benefit of the Company;
- (e) in relation to Resolution 6, each of the Directors, other than Tristan Fischer, confirm that they make no recommendation as they have an interest in similar resolutions, being resolutions 7, 8 and 9;
- (f) all of the Directors were available to consider Resolution 6;
- (g) the ASIC, in reviewing documents lodged under Section 218 of the Corporations Act relating to the giving of financial benefits to related parties of public

companies, requires explanatory information regarding the value of the Options to be given. The Company has commissioned Munday Wilkinson Chartered and Forensic Accountants to provide an independent valuation of the Options. The independent valuation of the Options and the pricing methodology used is attached to these Explanatory Notes;

- (h) Tristan Fischer, the director who has recommended the resolution, does not consider that there are any material opportunity costs to the Company or benefits foregone by the Company in granting the Options taking into consideration that the exercise price exceeded the share trading price when the Directors resolved to seek shareholder approval to issue the options on 21 March 2003;
- (i) the market price of the Shares during the term of the Options would normally determine whether the Options will be exercised. At the time any of the Options are exercised, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options. In the year prior to the date of the Notice, the lowest and highest trading price of the Shares on ASX was 14.6 cents on 13 November 2002 and 11 December 2002 and 85 cents on 5 August 2003 respectively. The latest available trading price of Shares on ASX was 69 cents on 28 October 2003;
- (j) at the date of this notice, Julian Little has a relevant interest in Shares in the Company as follows:
  - 1,571,232 shares
- (k) at the date of this notice, Julian Little is not receiving any emoluments from the Company. Julian Little may in the future be remunerated for his services by the Company on terms that are consistent with remuneration paid to executive directors of public companies of a similar size and industry grouping to the Company.

## 6.7 Recommendation

Tristan Fischer, a present director of the Company, recommends that shareholders approve the grant of options to Julian Little as set out above.

## 6.8 Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by:

- Julian Little;
- An associate of Julian Little.

However the Company need not disregard a vote 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 7 - GRANT OF OPTIONS TO PETER MCDUGALL, EXECUTIVE DIRECTOR**

Approval is sought to grant options to Peter McDougall, executive director of the Company on the terms and conditions set out below:

<b>Tranche 1</b>	<b>Tranche 2</b>
250,000 options	650,000 options

Shareholder approval is sought pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

It is not proposed that these options be issued pursuant to the Company's Employee Option Plan.

## 7.1 **Supporting Information**

The Board is of the view that the longer term performance incentive component of its executive directors' remuneration packages should be closely aligned to that of the total return to shareholders.

On 21 March 2003 the Board resolved that, subject to obtaining shareholder approval, the executive directors, including Peter McDougall, would be issued with the options set out above.

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

## 7.2 **Number of Options**

The number of options and the terms applicable to them are designed to provide a continuing incentive for Peter McDougall to produce value for shareholders and reward him if he is successful. The Board of the Company has agreed that, subject to obtaining shareholder approval, the Company will issue 900,000 options to Peter McDougall in two tranches:

- (a) Tranche 1 of the options are proposed to be issued as a reward for past performance and are entitled to be exercised immediately upon their issue.

At 21 March 2003, the Board resolved that tranche 1 of the options be issued as the executive directors, including Peter McDougall, had been working tirelessly on a number of existing and new projects, including the acquisition and integration of DialTime Pty Ltd with the Company's existing business and the development of an Australia wide bill payment service which included negotiating a Heads of Agreement with the Australian Newsagents Federation and the purchase of the Service ATM bill payment network from Coles Myer Limited.

The Company's net profit for the financial year ending 30 June 2002 was \$256,077. The Company's net profit for the financial year ending 30 June 2003

was \$1,083,427. The Company's share price as at 30 June 2002 was 28 cents. The Company's share price as at 30 June 2003 was 65 cents.

- (b) Tranche 2 of the options shall be entitled to be exercised on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network.

The Heads of Agreement with the Australian Newsagents Federation and the agreement with Coles Myer Limited have now been executed. The Board is of the view that the achievement of 2,000 Bill Express sites will give the Company sufficient market penetration and the resulting economies of scale will increase the Company's revenue and profitability. The Company has currently achieved approximately 1,550 sites, comprising of approximately 1,100 Bill Express sites in newsagents and 450 Coles Supermarkets (Service ATM) sites.

The Company will not be raising any funds as a consequence of the grant of the Options but will raise funds if the Options are exercised. If all the tranche 1 options are exercised the Company would receive \$75,000. If all of the tranche 2 options are exercised, the Company would receive an additional \$195,000. The Options are to be granted to provide an incentive to Peter McDougall to continue to provide dedicated and ongoing commitment to the Company.

In order for the Company to rely on shareholder approval of the issue of options pursuant to ASX Listing Rule 10.11, the Company must issue the options on or before one month after date of meeting.

### 7.3 **Exercise Price**

The exercise price of each of the options is \$0.30. The exercise price was set by the Board at 21 March 2003.

The Company's share price as at 17 March 2003 was 15.2 cents. The Company's shares were suspended from quotation from 17 March 2003 until 16 May 2003. The latest available trading price of shares on ASX was 69 cents on 28 October 2003.

The average share price over the last 12 months, based on monthly closing prices, was 47 cents.

#### 7.4 **Exercise of Options**

The Options issued pursuant to tranche 1 are exercisable immediately. The Options issued pursuant to tranche 2 are exercisable upon the Company achieving the performance targets described in 7.2 above. Any options that remain unexercised shall expire on 30 May 2008.

If all of the Options pursuant to resolution 6 are exercised, the total shares on issue shall increase from 21,674,448 to 22,574,448, and the shares now on issue would then comprise 96% of the total shares on issue.

If all of the Options pursuant to resolutions 6, 7, 8 and 9 are exercised, the total shares on issue shall increase from 21,674,448 to 25,274,448, and the shares now on issue would then comprise 85.8% of the total shares on issue.

#### 7.5 **Quotation of Option**

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

#### 7.6 **Corporations Act**

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to any of its related parties unless a relevant exception applies.

The term *financial benefit* is widely defined and includes the issue of securities such as options. The term *related party* includes a director of the Company.

The prohibition does not apply where a resolution is passed by the Company permitting the benefit to be given.

Section 219 of the Corporations Act requires the following information to be provided to shareholders:

- (a) the related party to whom Resolution 7 will permit a financial benefit to be given is:
- Peter McDougall
- (b) the financial benefit to be given pursuant to Resolution 7 is 900,000 options to Peter McDougall;
- (c) the Options are to be issued for no consideration on the terms and conditions as set out in paragraph 7.2 and 7.3 of this Explanatory Statement;
- (d) Mr Tristan Fischer (the present director of the Company, excluding Dugal McDougall, Julian Little, Hal Christiansen, Ian Christiansen and Peter McDougall) recommend the approval of Resolution 7 by shareholders because the grant of the Options will provide an incentive for the services that will be provided by Peter McDougall to the Company. It considers this form of incentive to be cost effective and for the long term benefit of the Company;
- (e) in relation to Resolution 7, each of the Directors, other than Tristan Fischer, confirm that they make no recommendation as they have an interest in similar resolutions, being resolutions 6, 8 and 9;
- (f) all of the Directors were available to consider Resolution 7;
- (g) the ASIC, in reviewing documents lodged under Section 218 of the Corporations Act relating to the giving of financial benefits to related parties of public companies, requires explanatory information regarding the value of the Options to be given. The Company has commissioned Munday Wilkinson Chartered and Forensic Accountants to provide an independent valuation of the Options. The independent valuation of the Options and the pricing methodology used is attached to these Explanatory Notes;
- (h) Tristan Fischer, the director who has recommended the resolution, does not consider that there are any material opportunity costs to the Company or benefits foregone by the Company in granting the Options taking into consideration that

the exercise price exceeded the share trading price when the Directors resolved to seek shareholder approval to issue the options on 21 March 2003;

- (i) the market price of the Shares during the term of the Options would normally determine whether the Options will be exercised. At the time any of the Options are exercised, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options. In the year prior to the date of the Notice, the lowest and highest trading price of the Shares on ASX was 14.6 cents on 13 November 2002 and 11 December 2002 and 85 cents on 5 August 2003 respectively. The latest available trading price of Shares on ASX was 69 cents on 28 October 2003;
- (j) at the date of this notice, Peter McDougall has a relevant interest in Shares in the Company as follows:
- 6,887,398 shares
- (k) at the date of this notice, Peter McDougall is not receiving any emoluments from the Company. Peter McDougall may in the future be remunerated for his services by the Company on terms that are consistent with remuneration paid to executive directors of public companies of a similar size and industry grouping to the Company.

#### **7.7 Recommendation**

Tristan Fischer, a present director of the Company, recommends that shareholders approve the grant of options to Peter McDougall as set out above.

#### **7.8 Voting Exclusion Statement**

The Company will disregard any votes cast on this resolution by:

- Peter McDougall;
- An associate of Peter McDougall.

However the Company need not disregard a vote 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 - GRANT OF OPTIONS TO IAN CHRISTIANSEN, EXECUTIVE DIRECTOR**

Approval is sought to grant options to Ian Christiansen, executive director of the Company on the terms and conditions set out below:

<b>Tranche 1</b>	<b>Tranche 2</b>
250,000 options	650,000 options

Shareholder approval is sought pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

It is not proposed that these options be issued pursuant to the Company's Employee Option Plan.

### **8.1 Supporting Information**

The Board is of the view that the longer term performance incentive component of its executive directors' remuneration packages should be closely aligned to that of the total return to shareholders.

On 21 March 2003 the Board resolved that, subject to obtaining shareholder approval, the executive directors, including Ian Christiansen, would be issued with the options set out above.

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank pari passu with the Company's then existing ordinary shares.

### **8.2 Number of Options**

The number of options and the terms applicable to them are designed to provide a continuing incentive for Ian Christiansen to produce value for shareholders and reward him if he is successful. The Board of the Company has agreed that, subject to obtaining

shareholder approval, the Company will issue 900,000 options to Ian Christiansen in two tranches:

- (a) Tranche 1 of the options are proposed to be issued as a reward for past performance and are entitled to be exercised immediately upon their issue.

At 21 March 2003, the Board resolved that tranche 1 of the options be issued as the executive directors, including Ian Christiansen, had been working tirelessly on a number of existing and new projects, including the acquisition and integration of DialTime Pty Ltd with the Company's existing business and the development of an Australia wide bill payment service which included negotiating a Heads of Agreement with the Australian Newsagents Federation and the purchase of the Service ATM bill payment network from Coles Myer Limited.

The Company's net profit for the financial year ending 30 June 2002 was \$256,077. The Company's net profit for the financial year ending 30 June 2003 was \$1,083,427. The Company's share price as at 30 June 2002 was 28 cents. The Company's share price as at 30 June 2003 was 65 cents.

- (b) Tranche 2 of the options shall be entitled to be exercised on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network.

The Heads of Agreement with the Australian Newsagents Federation and the agreement with Coles Myer Limited have now been executed. The Board is of the view that the achievement of 2,000 Bill Express sites will give the Company sufficient market penetration and the resulting economies of scale will increase the Company's revenue and profitability. The Company has currently achieved approximately 1,550 sites, comprising of approximately 1,100 Bill Express sites in newsagents and 450 Coles Supermarkets (Service ATM) sites.

The Company will not be raising any funds as a consequence of the grant of the Options but will raise funds if the Options are exercised. If all the tranche 1 options are exercised the Company would receive \$75,000. If all of the tranche 2 options are exercised, the

Company would receive an additional \$195,000. The Options are to be granted to provide an incentive to Ian Christiansen to continue to provide dedicated and ongoing commitment to the Company.

In order for the Company to rely on shareholder approval of the issue of options pursuant to ASX Listing Rule 10.11, the Company must issue the options on or before one month after date of meeting.

### 8.3 **Exercise Price**

The exercise price of each of the options is \$0.30. The exercise price was set by the Board at 21 March 2003.

The Company's share price as at 17 March 2003 was 15.2 cents. The Company's shares were suspended from quotation from 17 March 2003 until 16 May 2003. The latest available trading price of shares on ASX was 69 cents on 28 October 2003.

The average share price over the last 12 months, based on monthly closing prices, was 47 cents.

### 8.4 **Exercise of Options**

The Options issued pursuant to tranche 1 are exercisable immediately. The Options issued pursuant to tranche 2 are exercisable upon the Company achieving the performance targets described in 8.2 above. Any options that remain unexercised shall expire on 30 May 2008.

If all of the Options pursuant to resolution 6 are exercised, the total shares on issue shall increase from 21,674,448 to 22,574,448, and the shares now on issue would then comprise 96% of the total shares on issue.

If all of the Options pursuant to resolutions 6, 7, 8 and 9 are exercised, the total shares on issue shall increase from 21,674,448 to 25,274,448, and the shares now on issue would then comprise 85.8% of the total shares on issue.

## 8.5 Quotation of Option

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

## 8.6 Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to any of its related parties unless a relevant exception applies.

The term *financial benefit* is widely defined and includes the issue of securities such as options. The term *related party* includes a director of the Company.

The prohibition does not apply where a resolution is passed by the Company permitting the benefit to be given.

Section 219 of the Corporations Act requires the following information to be provided to shareholders:

- (a) the related party to whom Resolution 8 will permit a financial benefit to be given is:
  - Ian Christiansen
- (b) the financial benefit to be given pursuant to Resolution 8 is 900,000 options to Ian Christiansen;
- (c) the Options are to be issued for no consideration on the terms and conditions as set out in paragraph 8.2 and 8.3 of this Explanatory Statement;
- (d) Mr Tristan Fischer (the present director of the Company, excluding Dugal McDougall, Julian Little, Hal Christiansen, Ian Christiansen and Peter McDougall) recommends the approval of Resolution 8 by shareholders because the grant of the Options will provide an incentive for the services that will be provided by Ian Christiansen to the Company. It considers this form of incentive to be cost effective and for the long term benefit of the Company;

- (e) in relation to Resolution 8, each of the Directors, other than Tristan Fischer, confirm that they make no recommendation as they have an interest in similar resolutions, being resolutions 6, 7 and 9.
- (f) all of the Directors were available to consider Resolution 8;
- (g) the ASIC, in reviewing documents lodged under Section 218 of the Corporations Act relating to the giving of financial benefits to related parties of public companies, requires explanatory information regarding the value of the Options to be given. The Company has commissioned Munday Wilkinson Chartered and Forensic Accountants to provide an independent valuation of the Options. The independent valuation of the Options and the pricing methodology used is attached to these Explanatory Notes;
- (h) Tristan Fischer, the director who has recommended the resolution, does not consider that there are any material opportunity costs to the Company or benefits foregone by the Company in granting the Options taking into consideration that the exercise price exceeded the share trading price when the Directors resolved to seek shareholder approval to issue the options on 21 March 2003;
- (i) the market price of the Shares during the term of the Options would normally determine whether the Options will be exercised. At the time any of the Options are exercised, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options. In the year prior to the date of the Notice, the lowest and highest trading price of the Shares on ASX was 14.6 cents on 13 November 2002 and 11 December 2002 and 85 cents on 5 August 2003 respectively. The latest available trading price of Shares on ASX was 69 cents on 28 October 2003;
- (j) at the date of this notice, Ian Christiansen has a relevant interest in Shares in the Company as follows:
- 1,898,910 shares

- (k) at the date of this notice, Ian Christiansen is not receiving any emoluments from the Company. Ian Christiansen may in the future be remunerated for his services by the Company on terms that are consistent with remuneration paid to executive directors of public companies of a similar size and industry grouping to the Company.

#### 8.7 **Recommendation**

Tristan Fischer, a present director of the Company, recommends that shareholders approve the grant of options to Ian Christiansen as set out above.

#### 8.8 **Voting Exclusion Statement**

The Company will disregard any votes cast on this resolution by:

- Ian Christiansen;
- An associate of Ian Christiansen.

However the Company need not disregard a vote 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 9 - GRANT OF OPTIONS TO HAL CHRISTIANSEN, EXECUTIVE DIRECTOR**

Approval is sought to grant options to Hal Christiansen, executive director of the Company on the terms and conditions set out below:

<b>Tranche 1</b>	<b>Tranche 2</b>
250,000 options	650,000 options

Shareholder approval is sought pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

It is not proposed that these options be issued pursuant to the Company's Employee Option Plan.

## 9.1 **Supporting Information**

The Board is of the view that the longer term performance incentive component of its executive directors' remuneration packages should be closely aligned to that of the total return to shareholders.

On 21 March 2003 the Board resolved that, subject to obtaining shareholder approval, the executive directors, including Hal Christiansen, would be issued with the options set out above.

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank pari passu with the Company's then existing ordinary shares.

## 9.2 **Number of Options**

The number of options and the terms applicable to them are designed to provide a continuing incentive for Hal Christiansen to produce value for shareholders and reward him when he is successful. The Board of the Company has agreed that, subject to obtaining shareholder approval, the Company will issue 900,000 options to Hal Christiansen in two tranches:

- (a) Tranche 1 of the options are proposed to be issued as a reward for past performance and are entitled to be exercised immediately upon their issue.

At 21 March 2003, the Board resolved that tranche 1 of the options be issued as the executive directors, including Hal Christiansen, had been working tirelessly on a number of existing and new projects, including the acquisition and integration of DialTime Pty Ltd with the Company's existing business and the development of an Australia wide bill payment service which included negotiating a Heads of Agreement with the Australian Newsagents Federation and the purchase of the Service ATM bill payment network from Coles Myer Limited.

The Company's net profit for the financial year ending 30 June 2002 was \$256,077. The Company's net profit for the financial year ending 30 June 2003

was \$1,083,427. The Company's share price as at 30 June 2002 was 28 cents. The Company's share price as at 30 June 2003 was 65 cents.

- (b) Tranche 2 of the options shall be entitled to be exercised on the Company securing 2,000 Bill Express sites and executing a Heads of Agreement with the Australian Newsagents Federation and an agreement with Coles Myer Limited to purchase its Service ATM bill payment network.

The Heads of Agreement with the Australian Newsagents Federation and the agreement with Coles Myer Limited have now been executed. The Board is of the view that the achievement of 2,000 Bill Express sites will give the Company sufficient market penetration and the resulting economies of scale will increase the Company's revenue and profitability. The Company has currently achieved approximately 1,550 sites, comprising of approximately 1,100 Bill Express sites in newsagents and 450 Coles Supermarkets (Service ATM) sites.

The Company will not be raising any funds as a consequence of the grant of the Options but will raise funds if the Options are exercised. If all the tranche 1 options are exercised the Company would receive \$75,000. If all of the tranche 2 options are exercised, the Company would receive an additional \$195,000. The Options are to be granted to provide an incentive to Hal Christiansen to continue to provide dedicated and ongoing commitment to the Company.

In order for the Company to rely on shareholder approval of the issue of options pursuant to ASX Listing Rule 10.11, the Company must issue the options on or before one month after date of meeting.

### 9.3 **Exercise Price**

The exercise price of each of the options is \$0.30. The exercise price was set by the Board at 21 March 2003.

The Company's share price as at 17 March 2003 was 15.2 cents. The Company's shares were suspended from quotation from 17 March 2003 until 16 May 2003. The latest available trading price of shares on ASX was 69 cents on 28 October 2003.

The average share price over the last 12 months, based on monthly closing prices, was 47 cents.

#### 9.4 **Exercise of Options**

The Options issued pursuant to tranche 1 are exercisable immediately. The Options issued pursuant to tranche 2 are exercisable upon the Company achieving the performance targets described in 9.2 above. Any options that remain unexercised shall expire on 30 May 2008.

If all of the Options pursuant to resolution 6 are exercised, the total shares on issue shall increase from 21,674,448 to 22,574,448, and the shares now on issue would then comprise 96% of the total shares on issue.

If all of the Options pursuant to resolutions 6, 7, 8 and 9 are exercised, the total shares on issue shall increase from 21,674,448 to 25,274,448, and the shares now on issue would then comprise 85.8% of the total shares on issue.

#### 9.5 **Quotation of Option**

The options will not be listed on ASX. The Company will seek quotation of shares issued as a result of the exercise of the options and these shares shall rank *pari passu* with the Company's then existing ordinary shares.

#### 9.6 **Corporations Act**

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to any of its related parties unless a relevant exception applies.

The term *financial benefit* is widely defined and includes the issue of securities such as options. The term *related party* includes a director of the Company.

The prohibition does not apply where a resolution is passed by the Company permitting the benefit to be given.

Section 219 of the Corporations Act requires the following information to be provided to shareholders:

- (a) the related party to whom Resolution 9 will permit a financial benefit to be given is:
- Hal Christiansen
- (b) the financial benefit to be given pursuant to Resolution 9 is 900,000 options to Hal Christiansen;
- (c) the Options are to be issued for no consideration on the terms and conditions as set out in paragraph 9.2 and 9.3 of this Explanatory Statement;
- (d) Mr Tristan Fischer (the present director of the Company, excluding Dugal McDougall, Julian Little, Hal Christiansen, Ian Christiansen and Peter McDougall) recommends the approval of Resolution 9 by shareholders because the grant of the Options will provide an incentive for the services that will be provided by Hal Christiansen to the Company. It considers this form of incentive to be cost effective and for the long term benefit of the Company;
- (e) in relation to Resolution 9, each of the Directors, other than Tristan Fischer, confirm that they make no recommendation as they have an interest in similar resolutions, being resolutions 6, 7 and 8.
- (f) all of the Directors were available to consider Resolution 9;
- (g) the ASIC, in reviewing documents lodged under Section 218 of the Corporations Act relating to the giving of financial benefits to related parties of public companies, requires explanatory information regarding the value of the Options to be given. The Company has commissioned Munday Wilkinson Chartered and Forensic Accountants to provide an independent valuation of the Options. The independent valuation of the Options and the pricing methodology used is attached to these Explanatory Notes;
- (h) Tristan Fischer, the director who has recommended the resolution, does not consider that there are any material opportunity costs to the Company or benefits

foregone by the Company in granting the Options taking into consideration that the exercise price exceeded the share trading price when the Directors resolved to seek shareholder approval to issue the options on 21 March 2003;

- (i) the market price of the Shares during the term of the Options would normally determine whether the Options will be exercised. At the time any of the Options are exercised, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options. In the year prior to the date of the Notice, the lowest and highest trading price of the Shares on ASX was 14.6 cents on 13 November 2002 and 11 December 2002 and 85 cents on 5 August 2003 respectively. The latest available trading price of Shares on ASX was 69 cents on 28 October 2003;
- (j) at the date of this notice, Hal Christiansen has a relevant interest in Shares in the Company as follows:
  - 2,765,378 shares
- (k) at the date of this notice, Hal Christiansen is not receiving any emoluments from the Company. Hal Christiansen may in the future be remunerated for his services by the Company on terms that are consistent with remuneration paid to executive directors of public companies of a similar size and industry grouping to the Company.

#### 9.7 **Recommendation**

Tristan Fischer, a present director of the Company, recommends that shareholders approve the grant of options to Hal Christiansen as set out above.

#### 9.8 **Voting Exclusion Statement**

The Company will disregard any votes cast on this resolution by:

- Hal Christiansen;
- An associate of Hal Christiansen.

However the Company need not disregard a vote 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.

## **GENERAL NOTES**

### **Entitlement to Vote**

The Company has determined in accordance with Part 7.11 of the Corporations Regulations that for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register as at 7pm AEST on Wednesday 26 November 2003.

### **Corporate Representatives**

For a corporate representative to vote, they will require a Certificate of Appointment of Corporate Representative executed in accordance with the *Corporations Act*.

### **Voting**

On a show of hands, every member present in person or by proxy or by attorney or, in the case of a corporation, by duly appointed representative, shall have one vote and on a poll one vote for every share held provided that if a member appoints two proxies or two attorneys, neither proxy nor attorney shall be entitled to vote on a show of hands.

### **Proxies**

A member entitled to attend and vote at the Annual General Meeting may appoint one or two persons to attend and vote at the meeting as the member's proxy. If you wish to appoint a second proxy you will need to complete a second form. Computershare Investor Services will provide additional proxy forms upon request.

A proxy need not be a member. If two proxies are appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. If the vote split is not specified, it is deemed to be equally divided between the two proxies.

The Proxy Form must be deposited at the office of the Company, located at 677 The Boulevard, Eaglemont, Victoria, 3084 or by facsimile to (03) 8458 1004 by no later than 9am AEST, Wednesday, 26 November 2003.

13 October 2003

The Directors  
Australian Pure Fruits Limited  
Suite 5  
97 Lewis Road  
WANTIRNA VIC 3152

Dear Sirs,

**Indicative valuation of related party options**

1. **Background**

- 1.1. We understand that Australian Pure Fruits Limited ("AFL") is a company listed on the Australian Stock Exchange ("ASX") and that the company is proposing an issue of options to directors, or their nominees as compensation for recent performance ("the Options").
- 1.2. You have requested we provide you with a valuation of the Options so that the company can meet its obligations under the Corporations Act 2001 ("the Act").

2. **Purpose and scope of report**

- 2.1. The provisions of the Act set out the requirements of listed companies when issuing share options to directors. These include:
  - 2.1.1. Section 218(1) which requires a company to lodge with the Australian Securities and Investments Commission ("ASIC") at least 14 days prior to a notice for the relevant meeting being issued, certain documents that will be put to shareholders, including a proposed Notice for the proposed meeting and any relevant Explanatory Memorandum.
  - 2.1.2. Section 219(1) of the Act sets out the information required to be included in the Explanatory Memorandum, including the value of the options, the terms of the options, the basis of the valuation, key assumptions affecting the value and the total remuneration package of the individuals concerned.
  - 2.1.3. Section 300A(1) of the Act requires a company listed on the Australian Stock Exchange ("the ASX") to disclose the value of emoluments relating to options in their directors' reports.

- 2.2. We understand that our valuation of the Options will be used for the purpose of disclosing a value attributable to the Options in the Explanatory Memorandum as required by section 219 of the Act and the directors' report as required by section 300A(1) of the Act.
  - 2.3. For the purposes of preparing this report, reliance has been placed upon the material, representations, information which we have specified above and the instructions provided to us, original documentation has not been required (unless otherwise stated) and no audit or examination of the validity of the documentation, representations, information or instructions provided has been undertaken save such audit as may be expressly referred to.
  - 2.4. This report is prepared subject to the provisions and qualifications stated herein, for the use of the parties to whom it is directed and for the purposes herein set out. We specifically deny any liability whatsoever to any other party who may use or rely on the whole, or any part of this report; or to the parties to whom it is addressed for use, whether in whole or in part, for purposes other than those herein set out.
  - 2.5. We reserve the right to review all calculations included or referred to in this opinion, and, if we consider it necessary, to revise our opinion in the light of any additional information which becomes known to us after the date of this report.
3. **Information Relied Upon**
    - 3.1. In completing this report we have relied upon the following information:
      - 3.1.1. Annual return for the year ended 30 June 2002.
      - 3.1.2. Annual return for the year ended 30 June 2003.
      - 3.1.3. Share price information for the period 10 October 2000 to 10 October 2003.
      - 3.1.4. Schedule of terms and conditions for the Options.
4. **Valuation Methodology**
    - 4.1. The ASIC issued Media Release 03-202 on 30 June 2003 which sets out the obligations of directors in relation to the issue of options to directors pursuant to section 300A(1) of the Act and provides guidance in determining the appropriate valuation method to adopt.
    - 4.2. Released as an attachment to the Media Release was a document titled "Guidelines to valuing options in annual directors reports" ("the Guidelines") and these outline how listed companies should include values of options in disclosures of directors' and executive officers' emoluments in their annual directors' reports for years ending on or after 30 June 2003.
    - 4.3. The Guidelines refer to the International Accounting Standards Board's Exposure Draft ED 2, Share-Based Payments ("ED2"), released on 7 November 2002 as providing a basis for valuing options and allocating those values over time. It further states that "it

is appropriate to draw on ED2 for the purposes of the disclosure of emoluments of directors and executive officers under s300A(1)".

- 4.4. In determining the appropriate valuation methodology we will refer to ED2.
- 4.5. Paragraph 7 of ED2 indicates that an entity should measure the goods or services received either directly, at the fair value of the goods or services received or indirectly, by reference to the fair value of the equity instruments granted, whichever is more readily available. Clarification is provided in paragraph 11 which indicates that for transactions with employees the fair value should be determined with reference to the fair value of the equity instruments granted, because this is more readily determinable than the fair value of services received.
- 4.6. To determine the value of options granted to an employee, paragraph 20 states that "the fair value should be measured at the market price of traded options with similar terms and conditions" or where these do not exist "the fair value shall be estimated by applying an option pricing model such as the Black-Scholes model or a binomial model".
- 4.7. It further states that the model applied should take into account all of the following factors:
  - 4.7.1. The exercise price of the option.
  - 4.7.2. The life of the option.
  - 4.7.3. The current price of the underlying shares.
  - 4.7.4. The expected volatility of the share price.
  - 4.7.5. The dividends expected on the shares.
  - 4.7.6. The risk-free interest rate for the life of the option.
- 4.8. ED2 states that "if a grant of options is conditional upon satisfying specified vesting conditions, those conditions shall be taken into account when an entity measures the fair value of the options granted". Conditions may include length of service or minimum performance levels and ED2 requires the valuer to allocate a measure of probability for the conditions when determining the value.
- 4.9. However, paragraph 4.8 of the Guidelines differentiates between the purpose of ED2 when valuing options granted to a group of employees and the provisions of section 300A(1) which deals with options granted to individuals. It indicates that it is usually difficult to estimate when a single individual will cease to be a director or executive officer with any accuracy and that for the purpose of preparing this report we should assume that the individuals will continue to provide the service until the vesting date, unless it is probable that the particular individual will cease at an earlier date.

- 4.10. There are a number of generally accepted valuation methodologies available to value options over shares in a company. The two most commonly used models are the Black-Scholes Model and the Binomial Model.
  - 4.11. These models value an option using a statistical analysis of the behaviour of share prices at various points in time. The value of an option is then calculated as an output of the fundamental determinants discussed in paragraph 4.7 above.
  - 4.12. The Black-Scholes Model can be used to value options that are only exercisable at the expiry date or options that can be exercised during the exercise period where there is no expectation of a dividend during the period.
  - 4.13. The Binomial Model can be used to value options that are exercisable during the exercise period whether or not there is an expectation of a dividend.
  - 4.14. We will consider the terms of the Options with reference to the features set out above to determine which of these methods is the most appropriate.
5. **Valuation parameters**

- 5.1. At a Board Meeting held on 21 March 2003, the directors of AFL resolved to issue options on the following basis:

**Allotment of options**

- 5.2. A total of 3,600,000 Options will be issued to four directors in two tranches, with:
  - 5.2.1. Tranche 1 of 1,000,000 options to be issued on approval by the shareholders, with no performance criteria attached; and
  - 5.2.2. Tranche 2 of a further 2,600,000 options to be issued on approval by the shareholders, with a restriction that they cannot be exercised until the company secures the installation of 2,000 Billpay sites with Australian Newsagents Federation and Coles Myer.

In the event the performance standard for tranche 2 is not met by the expiry date, the options will lapse.

**Valuation date**

- 5.3. We have adopted a valuation date of 28 November 2003, being the last date upon which AFL can hold its Annual General Meeting ("AGM"). If approved at the AGM the allotment of options is planned to occur shortly after.

**Terms of options**

- 5.4. The specific terms relating to both tranches of options are:
- 5.4.1. Each of the Options entitles the holder to subscribe for one fully paid ordinary share in the company at an exercise price ("K") of \$0.30 per share.
  - 5.4.2. The Options expire at 5.00pm Eastern Standard Time on 30 May 2008 ("expiry date").
  - 5.4.3. Any of the Options not exercised on or before the expiry date will automatically lapse.
  - 5.4.4. The Options may be exercised at any time prior to the expiry date wholly or in part.
  - 5.4.5. The Options are not transferable and no application will be made to the ASX for quotation of the options.

**Share price ("S")**

- 5.5. AFL's fully paid ordinary shares were trading on the ASX at \$0.690 at the end of trade 10 October 2003. For the purpose of our report we have adopted this price as an indication of the price at the valuation date.

**Status of Performance Obligation on tranche 2**

- 5.6. At the date of this report the performance obligation on tranche 2 of the Options has not been met. However, we understand that there are currently approximately 1,550 Billpay sites, with approximately 1,100 with Australian Newsagent Federations sites and 450 with Coles Myer sites.
- 5.7. Based on the available information, for the purpose of our valuation we have assumed that the performance obligation will be met prior to the expiry date.

**Expected volatility**

- 5.8. Expected volatility is measured as the expected standard deviation of returns ("sd") for the shareholders of AFL. We have determined the expected standard deviation of returns with reference to the actual standard deviation on monthly returns from quotation of AFL on the ASX to 10 October 2003.
- 5.9. The standard deviation was calculated by measuring the monthly continuously compounded return of AFL with reference to the stock price at the end of trade on the 10<sup>th</sup> day of each month for the period 10 November 2000 to 10 October 2003. From these returns we have calculated the standard deviation of monthly continuously compounded returns as 77.24%. A copy of this calculation is attached as Annexure "A".

**Dividend expectations**

- 5.10. There has been no dividend issued by AFL since listing on the ASX on 13 June 2000. We have been instructed that the directors have a general policy that where possible, dividends will be paid at a rate equal to 50% of net profit after tax. Given the historical dividend performance, for the purpose of this report we have assumed that there will be no dividends issued prior to exercise by the option holders.

**Risk-free interest rate**

- 5.11. The risk free interest rate ("r") has been measured with reference to the Commonwealth Government bond rate for a period of three years and ten years, both of which are equal to 5.28%<sup>1</sup>. The risk free rate of 5.28% has been adjusted to a continuously compounded rate of 5.15% for use in the valuation model selected.

**Marketability**

- 5.12. The option valuation models assume that the option being valued can be sold on a secondary market. There is no right of transfer in the Options and no application will be made for the Options to be quoted on the ASX.
- 5.13. Therefore, a discount for lack of marketability is required to determine an indicative fair market value for the Options.
- 5.14. For the purposes of arriving at an appropriate discount rate we have considered an empirical study on the value discount applicable to non-traded currency options and the discount ascribed to the valuation of non-tradable shares in Australia<sup>2</sup>.
- 5.15. On the basis of these studies we have applied a discount of 25% to the theoretical valuation of the Options to determine our indicative valuation.

**6. Indicative valuation****Valuation method**

- 6.1. We refer to our discussion in paragraphs 4.10 to 4.14 above in relation to the available option valuation models. In valuing the Options we note that while they can be exercised during the exercise period, there is no expectation of a dividend during this period. With this in mind we have selected the Black-Scholes Method to value the Options.

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<sup>1</sup> Calculated with reference to the Commonwealth Government bond rate for both a three year period and a ten year period at 9 October 2003 as reported in the Australian Financial Review on 10 October 2003

<sup>2</sup> As discussed by Wayne Lonegran in his article in the Autumn 2003 issue of the "Journal of the Securities Institute of Australia"

- 6.2. The Black-Scholes Model calculates the expected call premium at the exercise date by estimating the value of the underlying share, represented by  $S \times N(d_1)$  and subtracting the present value of paying the exercise price on the expiration day, represented by  $K \times e^{-rt} \times N(d_2)$  where "N" represents the cumulative standard normal distribution.
- 6.3. For the purpose of calculating the option value,  $d_1$  is equal to  $\frac{\ln(S/K) + (r + sd^2/2)t}{sd\sqrt{t}}$  divided by  $sd\sqrt{t}$ , while  $d_2$  is equal to  $d_1 - sd\sqrt{t}$ .

#### Indicative value per option

- 6.4. We have valued the Options with reference to the Guidelines and the provisions of ED2, applying the Black-Scholes Model of option valuation. In applying this model we have adopted the following key factors to calculate the indicative value per option:

Valuation date	28 November 2003
Share price ("S")	\$0.690
Exercise price ("K")	\$0.300
Expiry date	30 May 2008
Time until expiration ("t")	4.5068 years
Volatility ("sd")	77.24%
Risk free interest rate ("r")	5.15%
Theoretical value prior to any discount for marketability	\$0.5382
Discount for marketability	25%
Indicative value	\$0.4037

6.5. The theoretical value has been calculated by applying the Black-Scholes formula where:

- 6.5.1.  $\ln(S/K)$  is equal to 0.8329.
- 6.5.2.  $(r + \sigma^2/2)^t$  is equal to 1.5762.
- 6.5.3.  $\sigma\sqrt{t}$  is equal to 1.6397.
- 6.5.4.  $d_1$  is equal to 1.4692.
- 6.5.5.  $d_2$  is equal to -0.1705.
- 6.5.6.  $2.7183^{-rt}$  is equal to 0.7930.
- 6.5.7.  $N(d_1)$  is equal to 0.04323.
- 6.5.8.  $S \times N(d_1)$  is equal to 0.6411.
- 6.5.9.  $K \times 2.7183^{-rt} \times N(d_2)$  is equal to 0.1029.

#### **Number of options**

- 6.6. The terms of the options are set out in section 5 above and the number of options are set out in paragraph 5.4.
- 6.7. There will be 1,000,000 options issued as part of tranche 1 and a further 2,600,000 issued as part of tranche 2.

#### **Cumulative value of options**

- 6.8. With reference to the per option value in paragraph 6.4 above, the value of the options is \$1,453,320. This value has been calculated with reference to the 3,600,000 options proposed to be issued and a per option value of \$0.4037.
- 6.9. In relation to the above value we note that:
  - 6.9.1. All indicative values are present values as at the valuation date and are estimates based on market information available as at the date of this report and the assumptions applied.
  - 6.9.2. The indicative valuations are subject to limitations as to:
    - any changes in market and company circumstances between the date of this report and 30 May 2008;
    - the appropriateness of the theoretical model applied;
    - the appropriateness of the assumptions applied and
    - the need to estimate an appropriate discount rate for lack of marketability of the Options.

7. **Qualifications & Experience of the Writer**

**Russell Munday**

- 7.1. The writer, Russell John Munday, is a director of Munday Wilkinson Pty Ltd, Chartered & Forensic Accountants, Level 10, 470 Collins Street Melbourne. He is a chartered accountant and holds a Bachelor of Commerce degree obtained from the University of Melbourne and a Graduate Diploma in Finance & Investment from the Securities Institute of Australia.
- 7.2. He is a Fellow of The Institute of Chartered Accountants in Australia and an Associate of the Securities Industry of Australia, an Associate of the Australian Institute of Management, an Associate of the Australian Institute of Company Directors.
- 7.3. He has over 23 years experience in Chartered Accounting being employed in many areas of accounting including auditing, business and taxation services and corporate finance.
- 7.4. He specialises in Forensic Accounting, undertaking investigations, assessment of loss of earnings, expert determinations, professional opinions (of the actions of accountants, auditors and advisers) and the valuation of businesses for compliance (CGT, stamp duty, probate, etc), mergers & acquisition (business acquisitions, sales, mergers, partnership admissions/retirements, etc) and dispute (matrimonial disputes, shareholder disputes, etc) reasons.
- 7.5. He has appeared as an expert witness in a variety of matters in the Supreme Court, Federal Court, County Court and Family Court.
- 7.6. He chaired the Melbourne branch of the Forensic Accounting Special Interest Group of the Institute of Chartered Accountants in Australia from 1998 to 2003.

**David Ferrier**

- 7.7. Mr Munday was assisted in preparation of this report by David James Ferrier, an Associate Director in the firm Munday Wilkinson, Chartered & Forensic Accountants. He is a Chartered Accountant and holds a Bachelor of Business (Accounting) degree obtained from Royal Melbourne Institute of Technology in 1989.
- 7.8. He was admitted as an Associate of The Institute of Chartered Accountants in Australia in 1991 and has been a Registered Company Auditor since 1994 and was a Registered Tax Agent from 1994 until June 2002.
- 7.9. He has over 14 years experience in both commercial and professional accounting services being employed in many areas of accounting including auditing, business services, taxation services and corporate finance. During the 4 years preceding the last 15 months, he completed Forensic Accounting tasks, undertaking investigations and the valuation of businesses for commercial and matrimonial purposes, the preparation of loss of profit assessments for insurance and compensation purposes, and undertaking financial and corporate investigations. During the last 15 months he was employed as the Chief Financial Officer of a private company, where he was intimately involved in

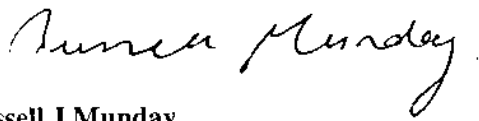
the preparation of financial statements, liaison with insurers and bankers, preparation of valuations for management and shareholder reports and preparation of a loss of profit claim for insurance purposes.

7.10. He has appeared as an expert witness in the Magistrates Court and Family Court, and prepared reports for adoption in the Supreme Court and Federal Court.

We will charge a fee for this report and the fee is not dependent on the successful passing of the resolution.

If you wish to discuss any of the above, please contact the writer.

Yours faithfully



**Russell J Munday**  
Director

## Annexure "A"

## STANDARD DEVIATION BASED ON MONTHLY DATA

Date	Last price	Daily rate	Cont Comp	Std dev calc
10-Oct-00	0.5424			
10-Nov-00	0.5424	0.00%	0.00%	0.00%
10-Dec-00	0.5623	3.67%	3.60%	0.09%
10-Jan-01	0.6284	11.76%	11.11%	1.09%
10-Feb-01	0.5292	-15.79%	-17.18%	3.19%
10-Mar-01	0.5557	5.01%	4.89%	0.18%
10-Apr-01	0.4300	-22.62%	-25.64%	6.92%
10-May-01	0.3704	-13.86%	-14.92%	2.43%
10-Jun-01	0.2977	-19.63%	-21.85%	5.07%
10-Jul-01	0.4234	42.22%	35.22%	11.94%
10-Aug-01	0.3969	-6.26%	-6.46%	0.51%
10-Sep-01	0.3969	0.00%	0.00%	0.00%
10-Oct-01	0.2977	-24.99%	-28.76%	8.66%
10-Nov-01	0.2646	-11.12%	-11.79%	1.55%
10-Dec-01	0.2977	12.51%	11.79%	1.24%
10-Jan-02	0.3308	11.12%	10.54%	0.97%
10-Feb-02	0.2117	-36.00%	-44.63%	20.52%
10-Mar-02	0.2183	3.12%	3.07%	0.06%
10-Apr-02	0.1521	-30.33%	-36.13%	13.54%
10-May-02	0.1191	-21.70%	-24.46%	6.31%
10-Jun-02	0.1257	5.54%	5.39%	0.22%
10-Jul-02	0.1224	-2.63%	-2.66%	0.11%
10-Aug-02	0.1455	18.87%	17.29%	2.76%
10-Sep-02	0.2051	40.96%	34.33%	11.33%
10-Oct-02	0.1786	-12.92%	-13.83%	2.10%
10-Nov-02	0.1654	-7.39%	-7.68%	0.70%
10-Dec-02	0.1455	-12.03%	-12.82%	1.82%
10-Jan-03	0.1455	0.00%	0.00%	0.00%
10-Feb-03	0.1522	4.60%	4.50%	0.15%
10-Mar-03	0.1522	0.00%	0.00%	0.00%
10-Apr-03	0.1522	0.00%	0.00%	0.00%
10-May-03	0.1522	0.00%	0.00%	0.00%
10-Jun-03	0.2600	70.83%	53.55%	27.96%
10-Jul-03	0.3850	48.08%	39.26%	14.89%
10-Aug-03	0.6000	55.84%	44.37%	19.10%
10-Sep-03	0.5000	-16.67%	-18.23%	3.57%
10-Oct-03	0.6900	38.00%	32.21%	9.95%
Average		3.28%	0.67%	
Variance				0.5966
Standard deviation				77.24%

# AUSTRALIAN PURE FRUITS LIMITED

ACN 009 104 330

## PROXY FORM

Australian Pure Fruits Limited  
677 The Boulevard  
EAGLEMONT VIC 3084

### SECTION 1 MEMBER/S NAME/S AND ADDRESS/ES

I/We \_\_\_\_\_ of \_\_\_\_\_

being a member/members of Australian Pure Fruits Limited ACN 009 104 330 appoint as my /our proxy the persons identified in Section 2 of the form to vote in accordance with the directions given in Section 3 of this form, or if no directions are given, as the proxy thinks fit, at the general meeting of the Company held on Friday 28 November 2003 at 9.00am and at any adjournment of the general meeting.

### SECTION 2 APPOINTMENT OF PROXY

Please select one of (A), (B) or (C) below (\*\* for guidance on completion – see Notes):

(A) Insert name of Proxy

\_\_\_\_\_ of \_\_\_\_\_

or failing him/her the Chairman to exercise my/our votes for me/us on my/our behalf:

**OR**

(B) The Chairman to exercise all of my/our votes for me/us on my/our behalf

**OR**

(C) (Insert name of 1<sup>st</sup> proxy)

\_\_\_\_\_ of \_\_\_\_\_

to exercise (state number or proportion) \_\_\_\_\_

of my/our votes for me/us at the general meeting of the Company

AND (Insert name of 2<sup>nd</sup> proxy)

\_\_\_\_\_ of \_\_\_\_\_

to exercise (state number or proportion) \_\_\_\_\_

of my/our votes for me/us at the general meeting of the Company or, failing one or both of my 1st and 2nd proxies, the Chairman to exercise my/our votes for me/us in respect of the number or proportion of my/our share allocated to the absent proxy/s, as set out above.

### SECTION 3 VOTING INSTRUCTIONS

I/We vote on the resolutions as indicated below:

	In Favour	Against	Abstain
1. Re-election of Hal Christiansen			
2. Re-election of Julian Little			
3. Election of Ian Christiansen			
4. Election of Tristan Fischer			
5. Adoption of Employee Option Plan			
6. Grant of Options to Julian Little, executive director			
7. Grant of Options to Peter McDougall, executive director			
8. Grant of Options to Ian Christiansen, executive director			
9. Grant of Options of Hal Christiansen, executive director			

The resolutions are numbered as in the Notice of General Meeting.

\* If you mark the abstain box for a particular item, you are directing your proxy not to vote in that particular item.

Where appointed as Proxy, the Chairman will vote in favour of each resolution in relation to undirected proxies.

If you do not wish to direct your proxy how to vote, please place a mark in the box.

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution, and votes cast by him other than as a proxy holder will be disregarded because of that interest.

**Signature of Members**

**Individual Only**

Signature

Signature

Date: .....

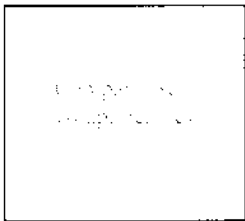
**Companies Only**

Sole Director and Sole Company Secretary

Director

Director/Secretary

Date: .....



**NOTES:**

**How to complete Proxy Form – Section 2 – APPOINTMENT OF PROXY (see Proxy Form)**

- To appoint one proxy – COMPLETE (A) and sign above
- To appoint the Chairman only – COMPLETE (B) and sign above.
- To appoint 2 proxies – if you are entitled to cast 2 or more votes at the meeting, you may appoint 2 proxies. If you want to appoint 2 proxies the DELETE (A) and (B) and COMPLETE (C) and sign. If you appoint 2 proxies and don't specify the number or proportion of votes each proxy may exercise, then each will be entitled to exercise half of your votes (with fractions being disregarded).
- A proxy appointed to attend and vote for a member has the same rights as the member to vote (to the extent allowed by this appointment) and to join in the demand for a poll.

**How to sign Proxy Form**

- This form must be signed by the member or by the member's attorney.
- If a corporation is the member, the proxy form must be signed in accordance with its constitution and the Corporations Act 2001, or by an authorised officer or attorney of the corporation.
- If the proxy is signed by a person who is not the registered shareholder, unless it has previously been noted by the Company, the authority under which the proxy is signed (or a certified copy of the authority) must be lodged together with this proxy form.

**Lodgement of Proxy Form**

For the proxy appointment to be effective, then not less than 48 hours before the time for holding the meeting i.e. before 9.00 am, 26 November 2003, this Proxy Form, must be received by the Company at its office at 677 The Boulevard, Eaglemont, Victoria, 3084 or by facsimile, if within Australia, at 03 9459 2087 or, International, at –613 9459 2087.