

PROSPECTUS

Offer of unsecured convertible notes to raise \$200 million with the ability to raise more or less

Five year fixed interest rate return of 6.25% pa.

Convertible into shares or redeemable for cash in February 2017

Australian Foundation Investment Company Limited

ABN 56 004 147 120

Note: This is an important document and requires your immediate attention. It should be read in its entirety. If you do not understand any part of this document, or you are in doubt as to how to deal with it, you should consult your accountant, stockbroker, financial planner, lawyer or other professional adviser.



EVANS & PARTNERS

Lead manager

E.L. & C. Baillieu Stockbroking Limited
Macquarie Equities Limited
RBS Morgans Limited

Co-managers

Allens Arthur Robinson



Legal advisers to Australian Foundation
Investment Company Limited

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IMPORTANT INFORMATION FOR APPLICANTS

This Prospectus is an important document and requires your immediate attention. It should be read in its entirety. Your investment decision regarding the Offer should be based upon the information contained in this Prospectus. If you do not understand any part of this Prospectus, you should consult your accountant, tax adviser, stockbroker, solicitor or other professional adviser.

The enclosed Application Form is important. Please refer to the instructions in section 1 of this Prospectus regarding your Application under the Offer. Applications under the Shareholder Priority Offer must be received together with payment for the subscription amount due by 5.00pm (Melbourne time) on 12 December 2011.

About this Prospectus

This Prospectus is dated 14 November 2011 and was lodged with ASIC on that date. ASIC, ASX, NZX and their respective officers take no responsibility for the contents of this Prospectus.

The expiry date of this Prospectus is the date that is 13 months after the date of this Prospectus. No AFIC Notes will be issued on the basis of this Prospectus after the expiry date.

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied upon as having been authorised by the Issuer in connection with the Offer. Neither the Issuer, the Lead Manager nor any other person warrants the future performance of the Issuer or any return on any investment made under this Prospectus, except as required by law and then, only to the extent so required.

In making an investment decision, Applicants must rely on their own examination and assessment of the Offer, including the terms and conditions of the Offer and the merits and risks involved. Various risks may affect the future operating and financial performance of the Issuer and the value of an investment in the Issuer. Some of these risks are discussed in more detail in section 4 of this Prospectus.

Certain words and phrases used in this Prospectus have defined meanings set out in the Glossary in section 8 of this Prospectus.

All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated.

Transaction Specific Prospectus

This Prospectus is a transaction specific prospectus for an Offer of AFIC Notes which are convertible into continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with ASIC Class Order 00/195. This Prospectus does not contain the same level of disclosure as an initial public offering prospectus.

In providing information in this Prospectus, regard has been had to the fact that the Issuer is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

Future Performance

Except as required by law and then only to the extent required, neither the Issuer nor any other person warrants the future performance of the Issuer or any return on any investment made pursuant to this Prospectus. To the extent information contained in this Prospectus constitutes forward-looking statements they are subject to various risks and uncertainties. The Issuer's actual results, performance or achievements could be significantly different from the results or objectives expressed in, or implied by, any forward-looking statements in this Prospectus. This Prospectus details some important risk factors that could cause the Issuer's actual results to differ from the forward-looking statements made in this Prospectus.

Further details regarding these risks, and other risks which may affect the Issuer or an investment in the Issuer, are contained in section 4 of this Prospectus.

Responsibility Statement by Trustee

The Trustee, Australian Executor Trustees Limited:

- (a) has not authorised or caused the issue, submission, dispatch or provision of this Prospectus and does not make any statement or purport to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based;
- (b) nor any of its directors, employees, officers, affiliates, agents, advisors, intermediaries or Related Body Corporate (each a 'related person') assumes any responsibility for the accuracy or completeness of any information contained in this Prospectus;
- (c) to the maximum extent permitted by law expressly disclaims all liability in respect of, makes no representation or any statement regarding, and takes no responsibility for, any part of this Prospectus, or any statements in, or omissions from this Prospectus, other than the references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with its written consent;
- (d) has given, and has not, before the lodgement of this Prospectus with ASIC withdrawn, its written consent to be named in this Prospectus in the form and content in which it is named;
- (e) nor any related person makes any representation as to the truth and accuracy of the contents of this Prospectus;
- (f) has relied on the Issuer for the accuracy of the contents of this Prospectus; and
- (g) nor any related person makes any representation or warranty as to the performance of AFIC Notes or the payment of interest or redemption of AFIC Notes.

Restrictions on Distribution of this Prospectus

This Prospectus does not constitute an Offer in any place in which, or to any person to whom, it would not be lawful to make such an Offer.

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia and New Zealand should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

In particular, AFIC Notes have not been and will not be registered under the US Securities Act of 1933 or the securities laws of any state of the US and may not be offered, sold or resold in the US or to, or for the benefit of, any 'US Person' as defined in Rule 902(k) of Regulation S under the US Securities Act of 1933, as amended.

Important Information for New Zealand Investors

- (a) This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.
- (b) This offer and the content of the Offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the offer must be made.
- (c) There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.
- (d) The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.
- (e) Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.
- (f) The taxation treatment of Australian securities is not the same as for New Zealand securities.
- (g) If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

- (h) The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.
- (i) If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.
- (j) If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

Electronic Prospectus

A copy of this Prospectus can be viewed/downloaded from the Offer website at www.aficnotesoffer.com.au

The Corporations Act prohibits any person passing onto another person an Application Form for the Offer unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus. During the Offer period, any person may obtain a hard copy of this Prospectus free of charge by contacting the Issuer.

Exposure Period

The Corporations Act prohibits the acceptance by the Issuer of Applications for AFIC Notes in respect of the Offer during the seven day period after the date this Prospectus was lodged with ASIC. This period is referred to as 'Exposure Period' and ASIC may extend this period by a further seven days (that is up to 14 days in total).

The purpose of the exposure period is to enable materials in the Prospectus, which relate to the Offer, to be examined by market participants before the Offer may be accepted by investors. No Applications will be processed until after the end of the exposure period.

ASX Guide

ASX has published a guide that may be useful to prospective investors considering whether to invest in AFIC Notes. The guide is entitled 'Understanding ASX Interest Rate Securities', and is available from www.asx.com.au/documents/resources/understanding_asx_interest_rate_securities.pdf. ASX's guide applies to a range of different and varying securities and does not specifically consider the terms of AFIC Notes.

LETTER FROM THE CHAIRMAN

Dear Investor

I am pleased to invite you to participate in an Offer by Australian Foundation Investment Company Limited (AFIC) of redeemable convertible notes (AFIC Notes) with a fixed interest rate of 6.25 per cent per annum until 28 February 2017.

The AFIC Notes aim to provide investors with a security offering an attractive fixed interest yield with the possibility of converting into AFIC Ordinary Shares depending on the performance of AFIC's share price over time or the repayment of funds at maturity.

Key Terms of the AFIC Notes Include

- Face Value – each AFIC Note will have a Face Value of \$100;
- interest payment – 6.25 per cent per annum fixed coupon payable semi-annually in arrears on 28 February and 31 August each year;
- maturity – 28 February 2017 (if not already redeemed or converted);
- convertibility – convertible into Ordinary Shares on each Interest Payment Date at a fixed Conversion Price (subject to adjustment for certain dilutionary and other capital transactions). The Conversion Price is initially set at a 25 per cent premium to the average of the daily volume weighted average prices of AFIC Ordinary Shares traded during the five Business Days prior to the issue of AFIC Notes;
- size – the Board intends to raise \$200 million of AFIC Notes with the ability to raise more or less (subject to a minimum of \$100 million);
- ranking – unsecured, and ranking for payment after any secured creditors are paid. AFIC Notes rank equally with AFIC's current bank facilities and ahead of AFIC Ordinary Shares; and
- liquidity – AFIC Notes will be listed on ASX.

AFIC is in a strong financial position to support the payment of interest on the AFIC Notes and for the return of funds at maturity. The Company's investment and trading portfolio currently comprises listed securities in over 75 companies. The market value of the investment and trading portfolio at 30 September 2011, excluding cash, was \$4.32 billion. AFIC has a long history of sound profit performance, with reported profit after tax for the year to 30 June 2011 of \$233.3 million.

The Issue comprises two components:

Shareholder Priority Offer

An Offer to all of the Company's Shareholders who have a registered address in Australia or New Zealand to apply for AFIC Notes subject to a minimum subscription of 50 notes (\$5,000). Shareholders have to be on the register on the record date of 22 November 2011 to be eligible to participate in this part of the Offer.

AFIC will endeavour to provide Shareholders with a priority Allocation under the Shareholder Priority Offer of at least 50 AFIC Notes. However, AFIC does not guarantee any minimum priority Allocation under the Shareholder Priority Offer and the extent of any Allocation will ultimately depend on the total level of Applications under the Offer.

Broker Firm Offer

A firm offer to Australian and New Zealand retail clients of Participating Brokers.

The Board has determined to reserve a minimum Allocation of \$150 million for participation in the Shareholder Priority Offer.

This Prospectus contains further details of the Offer, the terms of the AFIC Notes and a description of the risks associated with an investment in AFIC Notes and AFIC. I encourage you to read the entire Prospectus carefully and consider the risks which are set out in section 4 before deciding whether to participate in the Offer. If you are unsure whether AFIC Notes are a suitable investment for you, you should consult your stockbroker, accountant or other professional adviser.

On behalf of the AFIC Board, I invite you to consider participation in this investment opportunity.

Yours faithfully



Bruce B Teele
Chairman
Australian Foundation Investment Company Limited

Summary of Key Dates*

Announcement of AFIC Notes Offer	14 November 2011
Record Date for Shareholder Priority Offer	22 November 2011
Offer opens	23 November 2011
Offer closes	12 December 2011
Broker Firm Offer settlement date	16 December 2011
Issue of AFIC Notes	19 December 2011
Despatch of holding statements	21 December 2011
AFIC Notes expected to commence trading on ASX on normal settlement basis	22 December 2011
First Interest Payment Date	28 February 2012
Maturity Date	28 February 2017

* These dates are indicative only. The Issuer reserves the right to change the dates without prior notice. If the Offer is withdrawn before the issue of the AFIC Notes, all Application Monies received by AFIC will be refunded (without interest) to Applicants as soon as practicable after the withdrawal.

SECTION 1: OVERVIEW OF THE OFFER AND AFIC NOTES

1.1 Overview of the Offer

The Offer made under this Prospectus is an Offer for \$200 million of AFIC Notes to be issued at a price of \$100 per AFIC Note. The Issuer retains the ability to raise more or less than this amount.

The Offer comprises:

- a Shareholder Priority Offer, which is open to Shareholders with a registered address in Australia or New Zealand; and
- a Broker Firm Offer, which is open to Australian and New Zealand resident clients of Syndicate Brokers who have received a firm Allocation of AFIC Notes.

The Board has determined to reserve a minimum Allocation of \$150 million for participants in the Shareholder Priority Offer. The Allocation of AFIC Notes between Syndicate Brokers will be determined by the Issuer.

1.2 Purpose of the Offer

The purpose of the Offer is to raise additional funds for general corporate purposes, including to invest in securities of companies should appropriate investment opportunities arise.

1.3 Key Terms of AFIC Notes

Key terms of the AFIC Notes are summarised below. Please refer to the Terms of Issue in section 7 for the full terms of the AFIC Notes.

Issuer

Australian Foundation Investment Company Limited.

Security

Redeemable, unsecured convertible note.

Credit Rating

Unrated.

Maturity

Unless converted or redeemed earlier, the Issuer will redeem all outstanding AFIC Notes on 28 February 2017 (Maturity Date).

Face Value

Each AFIC Note will have a Face Value of \$100.

Issue Size

\$200 million with the ability to accept more or less (2,000,000 AFIC Notes), subject to a minimum of \$100 million (1,000,000 AFIC Notes).

Minimum Application

50 AFIC Notes (\$5,000).

Interest Rate

Fixed at 6.25 per cent per annum.

Interest Payment

Payable semi-annually in arrears on 28 February and 31 August up to and including the Maturity Date, with the first interest payment payable on 28 February 2012. If the date of payment falls on a day on which trading banks in Victoria are closed, the date of the payment will be the next day on which those banks are open.

Interest payments are not deferrable by AFIC nor are they discretionary.

Conversion Number

Upon conversion each AFIC Note will convert into a number of Ordinary Shares determined by dividing the Face Value by the Conversion Price.

Conversion Price

The Conversion Price is a 25 per cent premium to the average of the daily volume weighted average prices of AFIC Ordinary Shares traded during the five Business Days prior to the issue of AFIC Notes and is otherwise subject to adjustment for certain dilutionary and other capital transactions by AFIC.

Holder Exit Rights

At any time a Holder may request conversion of AFIC Notes at the next Interest Payment Date with a minimum 15 days notice and at the occurrence of the following events:

- If a Change of Control Event has occurred a Holder may request conversion or redemption of all (but not some only) of the Holder's AFIC Notes.
- If a change in Regulation Event has occurred a Holder may request conversion of all (but not some only) of the Holder's AFIC Notes.
- If a Delisting Event or Event of Default has occurred a Holder may request redemption of all (but not some only) of the Holder's AFIC Notes.
- AFIC Notes will be redeemed on the Maturity Date at Face Value, if not converted or redeemed prior to that date.

Issuer Realisation Rights

Subject to a Holder's right to convert, the Issuer may repay all (but not some only) of the AFIC Notes upon a Change in Regulation Event, a Change of Control Event, an Event of Default or a Delisting Event.

Change of Control Event

This occurs where:

- a takeover bid becomes unconditional and (a) the bidder acquires more than 50 per cent of the Ordinary Shares, or (b) the Directors unanimously recommend the bid; or
- a scheme of arrangement is approved by the court under which a person will acquire 100 per cent of the Ordinary Shares.

Change in Regulation Event

This occurs where there is some change in the tax or accounting regulations applicable to AFIC Notes which will or is expected by AFIC to result in an increase of the costs in keeping the AFIC Notes on issue or the effect of which is otherwise unacceptable in the opinion of the Directors.

Events of Default

The Issuer fails to pay any amount payable by it under any AFIC Notes within 10 Business Days after the date on which the payment is due.

The Issuer fails to issue Ordinary Shares on conversion in accordance with the Terms within 10 Business Days after the date on which such issue is to be made.

The Issuer fails to comply with any of its other material obligations under the Terms or AFIC Notes Trust Deed and such failure remains unremedied for a period of 30 Business Days after the Issuer has received written notice from the Trustee in respect of the failure.

Any debt of the Issuer greater than \$5,000,000 (or its equivalent in any other currencies) becomes due and payable before its stated maturity due to the occurrence of a default event under the terms of that debt (however described).

An Insolvency Event occurs in respect of AFIC.

All or any rights or obligations of the Issuer, Holders or the Trustee under the AFIC Notes Trust Deed or the Terms are terminated or are or become void, illegal, invalid, unenforceable or of limited force and effect.

It is, at any time, unlawful for the Issuer to perform any of its payment obligations under the AFIC Notes.

Delisting Event

This occurs where:

- Ordinary Shares are no longer quoted on ASX;
- the AFIC Notes are no longer quoted on ASX; or
- Ordinary Shares are suspended from trading on ASX for a period of 20 consecutive Business Days, in any case, other than as a result (directly or indirectly) of a Change of Control Event.

Default Interest

If an amount is not paid when due, then interest accrues on the unpaid amount (both before and after any demand or judgment) at 8.25 per cent until the date on which payment is made to the Holder.

Negative Pledge

For so long as the AFIC Notes remain on issue, AFIC will not permit any prior ranking security to exist in respect of, or in connection with, any Relevant Indebtedness that has been issued by AFIC without the approval of a Special Resolution of the Holders of AFIC Notes unless equal ranking Security is granted in favour of the Holders of AFIC Notes. However, from time to time, the Issuer may lodge shares as collateral for option positions.

Note Trustee

Australian Executor Trustees Limited was appointed as Trustee pursuant to the Note Trust Deed executed on 14 November 2011. The Note Trust Deed provides for the obligations of the Issuer and the Trustee to Holders in relation to the AFIC Notes. All rights in relation to the AFIC Notes may generally only be enforced by the Trustee in accordance with the Note Trust Deed as summarised in section 6.2.

Financial Information and Gearing Ratio

See section 3 of this Prospectus for details on the effect of the Offer on AFIC.

The Issuer covenants, for the benefit of Holders and for so long as AFIC Notes remain on issue, that the Issuer's Tangible Net Worth will not fall below either:

- (a) \$1,000,000,000; or
- (b) 50 per cent of its Total Tangible Assets.

Ranking

AFIC Notes rank:

- behind AFIC's secured debt (of which there is currently none); and
- equally amongst themselves and at least equally with all other unsubordinated and unsecured debt obligations of AFIC, other than those obligations mandatorily preferred by law; and
- ahead of ordinary equity of AFIC and any of AFIC's obligations that are expressed to be subordinated to AFIC Notes.

	Ranking	Existing AFIC debt obligations and equity	Facility limit capitalisation
Higher ranking	Secured debt	None	None ¹
	Unsecured debt	Committed facilities, AFIC Notes and other unsecured obligations	\$450 million ²
	Unsecured subordinated debt	None	None
	Preference shares	None	None
Lower ranking	Ordinary equity	AFIC Ordinary Shares	\$4.2 billion ³

Notes:

1. From time to time, AFIC may lodge shares as collateral against option positions.
2. Based on committed facilities at 30 June 2011 of \$250 million and assuming that \$200 million of AFIC Notes are issued under the Offer. As at 11 November 2011 the committed facilities have been drawn to \$133 million.
3. AFIC's total Shareholders' equity as at 30 June 2011, as set out in section 2 of this Prospectus.

Participation Rights

If there is a securities issue (except for a share purchase plan, bonus issue or a dividend reinvestment plan) before the Maturity Date, the Offer will be extended to each Holder (so far as it is lawful to do so), as though that Holder had converted all AFIC Notes held by the Holder to Ordinary Shares before the relevant date for determining entitlement.

Voting

The AFIC Notes have no voting rights at general meetings of the Issuer's members.

ASX Quotation

Application has been made for AFIC Notes to be quoted on ASX under the code 'AFIG'.

Risks

There are risks involved in an investment in AFIC Notes. See section 4 of this Prospectus for further details.

1.4 Shareholder Priority Offer

Registered Ordinary Shareholders with an address in Australia or New Zealand on the AFIC Registry at 7.00pm (Melbourne time) on Tuesday 22 November 2011 (Eligible Shareholders) are eligible to apply for an Allocation of AFIC Notes under the Shareholder Priority Offer.

Applications must be for a minimum of 50 AFIC Notes (\$5,000). Eligible Shareholders may obtain a copy of the Prospectus from the website www.aficnotesoffer.com.au

During the Offer Period, Eligible Shareholders can also request a copy of this Prospectus and their personalised Shareholder Application Form by contacting the AFIC Notes Information Line on 1300 662 270 (within Australia), 0800 333 501 (from New Zealand) or +61 3 9415 4373 (outside Australia and New Zealand), Monday to Friday, 8.30am to 5.00pm (Melbourne time).

Payment by Cheque or Bank Draft

If you are an Eligible Shareholder and paying by cheque or bank draft, you must return your completed paper Shareholder Application Form and payment to the address below so that it is received by the Registry before the Closing Date, which is 5.00pm (Melbourne time) on 12 December 2011. Cheque(s) and bank draft(s) must be drawn on an Australian branch of a financial institution, and made payable to 'AFIC Notes Offer Account'. Cheques should be crossed 'Not Negotiable'. Cash payments will not be accepted.

By mail to the Registry:

AFIC Notes Shareholder Priority Offer
c/- Computershare Investor Services Pty Limited
GPO Box 505
Melbourne Victoria 3001
Australia

AFIC Notes Shareholder Priority Offer
c/- Computershare Investor Services Pty Limited
Private Bag 92119
Auckland Mail Centre
Auckland 1142
New Zealand

Paper Shareholder Application Forms and payments will not be accepted at any other address or office.

Payment by BPAY® Online at www.aficnotesoffer.com.au

Eligible Shareholders who wish to pay by BPAY® (registered to BPAY Pty Ltd ABN 69 079 137 518) must complete their Application online at www.aficnotesoffer.com.au. Instructions on how to complete your Application are provided online. If you are applying online and you do not make a BPAY® payment, your Application will be incomplete and will not be accepted by AFIC. BPAY® payments must be made from an account held at an Australian branch of a financial institution.

Your Application must be received by 5.00pm (Melbourne time) on the Closing Date. If you have multiple holdings you will have multiple BPAY® reference numbers. To ensure you receive your AFIC Notes in respect of that holding, you must use the specific biller code and the customer reference number for each online Application when paying for any AFIC Notes that you wish to apply for in respect of that holding. If you inadvertently use the same customer reference number for more than one of your Applications, you will be deemed to have applied for AFIC Notes only for the Application to which that customer reference number relates.

Eligible Shareholders should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. You may also have your own limit on the amount that can be paid via BPAY®. It is your responsibility to check that the amount you wish to pay via BPAY® does not exceed your limit.

1.5 Broker Firm Offer

If you are applying under the Broker Firm Offer, you should contact the Syndicate Broker who has offered you a Broker Firm Allocation for information about how and when to lodge your Application.

1.6 Allocations Shareholder Priority Offer

The Board has determined to reserve a minimum Allocation of \$150 million for participants in the Shareholder Priority Offer. If possible, having regard to the total level of Applications under the Offer, AFIC will endeavour to provide AFIC Shareholders with an Allocation under the Shareholder Priority Offer of at least 50 AFIC Notes. However, AFIC does not guarantee any minimum Allocation under the Shareholder Priority Offer and the extent of any Allocation will ultimately depend on the total level of Applications under the Offer.

Eligible AFIC Shareholders must ensure that they lodge their Application in accordance with the instructions for the Shareholder Priority Offer (see section 1.4).

AFIC has the absolute discretion to determine the method and extent of the Allocation to Applicants under the Shareholder Priority Offer.

In particular, AFIC, in consultation with the Lead Manager, reserves the right (at its discretion) to:

- allocate to an eligible AFIC Shareholder all AFIC Notes for which they have applied; or
- allocate to any eligible AFIC Shareholder a lesser number of AFIC Notes than that applied for, or none at all.

Broker Firm Offer

Firm Allocations to Syndicate Brokers will be determined by AFIC, in consultation with the Lead Manager. Allocations to Broker Firm Applicants by a Syndicate Broker are at the discretion of that Syndicate Broker, subject to the Terms of Issue of this Prospectus.

1.7 ASX Listing

The Issuer has applied or will make an Application to ASX after the date of this Prospectus for the AFIC Notes to be quoted on ASX. Trading in AFIC Notes is expected to commence on ASX, on a normal settlement basis, on 22 December 2011.

If ASX does not grant permission for official quotation of the AFIC Notes within three months after the date of this Prospectus, none of the AFIC Notes offered under this Prospectus will be issued, unless ASIC grants the Issuer an exemption permitting the issue.

If no issue is made, all money paid on Application for the AFIC Notes will be refunded without interest as soon as practicable.

1.8 Issuer Termination Right

The Issuer reserves the right not to proceed with the Offer or any part of it at any time before the issue of Notes to Successful Applicants. If the Issuer withdraws the Offer, Notes will not be issued and all relevant Application Monies will be refunded (without interest).

1.9 Issue of AFIC Notes and Dispatch of Holding Statements

No issue of AFIC Notes will be made pursuant to this Prospectus until the proceeds of the Offer have been received and ASX has granted approval for official quotation of the AFIC Notes on ASX.

It is expected that the AFIC Notes will be issued on 19 December 2011 and trading on ASX is expected to commence on a normal settlement basis on 22 December 2011.

All Application Monies will be held on trust for Applicants until the AFIC Notes are issued or, if the AFIC Notes are not issued, until the Application Monies are returned to Applicants.

Interest earned on the Application Monies will be for the benefit of the Issuer and will be retained by the Issuer even if the issue of AFIC Notes does not take place.

If the amount of your Application Monies is less than the amount set out in your Application Form, you may be taken to have applied for such lower number of AFIC Notes as your cleared Application Payment will pay for (and to have specified that amount in your Application Form) or your Application Form may be rejected. Your Application Payment will be taken to be the amount of your total BPAY® payment or cheque(s)/ bank draft(s) that are received by the Issuer's registry in cleared funds.

If AFIC Notes are issued to you, you will receive a holding statement. Holding statements are expected to be despatched on or around 21 December 2011.

1.10 Enquiries

If you have any questions about the Offer please call the AFIC Notes Information Line on 1 300 662 270 (within Australia) or 0800 333 501 (from New Zealand) or +61 3 9415 4373 (outside Australia and New Zealand) (Monday to Friday, 8.30am to 5.00pm Melbourne time). If you are unclear in relation to any matter or are uncertain as to whether AFIC Notes are a suitable investment for you, you should seek professional advice from your accountant, stockbroker, lawyer or other independent professional adviser.

SECTION 2: INFORMATION ABOUT THE ISSUER

AFIC is a listed investment company (LIC) investing in a diversified portfolio of Australian equities with a focus on the top 200 listed companies by market capitalisation.

2.1 Investment Objectives

The Issuer aims to provide Shareholders with attractive investment returns through access to a steady stream of fully franked dividends and growth of capital invested. The primary investment goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

2.2 Approach to Investing

The investment philosophy is built on taking a medium to longer term view of the quality of a business. Accordingly, AFIC aims to buy and hold individual stocks for the long term based on selection criteria which, in summary, include:

- formulation and execution of business strategy of the Company and its underlying business value;
- key financial indicators, including cash flow, prospective price earnings relative to projected growth, sustainability of earnings and dividend yield; and
- corporate governance practices.

The Issuer operates a trading portfolio for short term opportunities. The Issuer seeks to enhance the return from that portfolio by also selling call and put options. In normal circumstances, the Board restricts the size of the trading portfolio to 10 per cent or less of the assets of the Issuer. The Board, through its Investment Committee, maintains close oversight of option transactions. Option transactions are limited to stocks held in the trading portfolio for the purpose of enhancing returns from that portfolio and buying and/or selling stocks at attractive prices. From time-to-time the Issuer will lodge shares as collateral against these option positions.

2.3 Our Structure

The Issuer has a 'closed end' structure which means that the number of shares on issue is fixed and set from time to time by the Board. As a result, the Issuer does not issue new shares or cancel them as investors enter and leave the fund. This allows management to concentrate on the performance of the funds invested over the longer term without having to deal with continuous inflows or outflows of monies.

2.4 Management Expense Ratio

The management expense ratio for the year ended 30 June 2011 was 0.17 per cent. The Issuer does not charge entry or exit fees when Shareholders acquire or dispose of their holdings although transaction costs will be incurred when buying or selling through a stockbroker. AFIC does not pay trailing commissions to financial advisers or portfolio performance fees to an external fund manager.

2.5 AFIC's Portfolio

The Issuer's top 25 holdings by market value as at 30 September 2011 are set out in the table below:

Values at Closing Prices at 30 September 2011

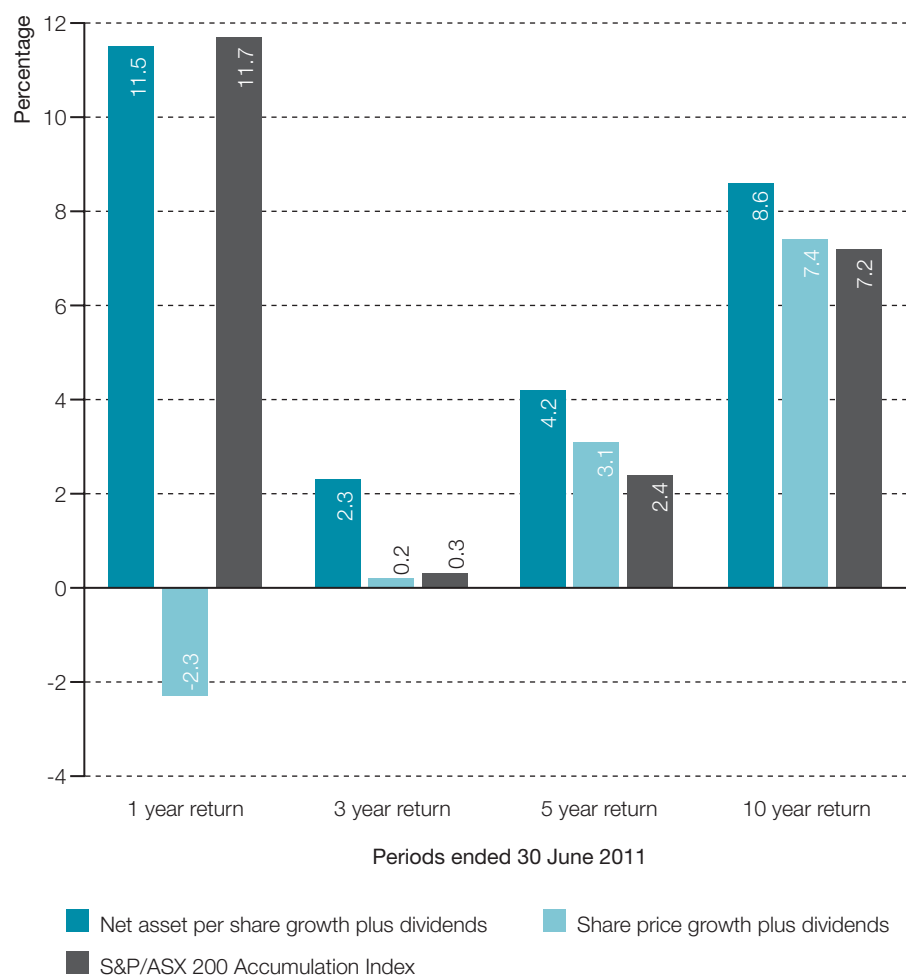
	Total Value \$ Million
1 BHP Billiton*	499.3
2 Commonwealth Bank of Australia*	388.4
3 Westpac Banking Corporation*	374.0
4 Wesfarmers#	239.9
5 National Australia Bank*	223.1
6 Rio Tinto	221.2
7 Australia & New Zealand Banking Group*	170.1
8 Telstra Corporation	157.7
9 Woolworths	154.2
10 Woodside Petroleum	91.9
11 Origin Energy*	88.6
12 Amcor	87.5
13 Santos*	83.6
14 Transurban Group	83.4
15 Oil Search*	79.8
16 QBE Insurance Group*	74.2
17 AMP*	71.9
18 Orica*	67.3
19 Australian Infrastructure Fund	61.5
20 Incitec Pivot	61.4
21 AGL Energy	61.3
22 Computershare	60.9
23 Brambles	56.3
24 Coca-Cola Amatil*	56.0
25 Bradken	47.0
Total	3,560.5

As percentage of total portfolio value (excludes cash and bank bills) 82.5%

* Indicates that options were outstanding against part or all of the holding in the trading portfolio.

Includes \$45.1 million of Wesfarmers (WESN) partially protected securities.

2.6 AFIC's Annualised Portfolio and Share Price Performance – to 30 June 2011



Note: AFIC net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. It should also be noted that index returns for the market do not include the impact of management expenses and tax on their performance. Past performance is not indicative of future performance. The value of an investment in a fund may fall as well as rise.

As at 31 October 2011 the Issuer's net asset backing per share was \$4.47 per share before the provision of deferred tax on unrealised gains in the Issuer's investment portfolio. The share price at the close of trading on the ASX on 31 October 2011 was \$4.21.

2.7 Relationship with AICS

The Issuer has entered into an agreement with its subsidiary, Australian Investment Company Services Limited (AICS) for AICS to provide on a non-exclusive basis a comprehensive range of management and operational services to the Issuer, including the day-to-day maintenance of the portfolios and associated research, under the leadership of the Managing Director of AICS, who is the Managing Director of the Issuer. AICS is 75 per cent owned by the Issuer and 25 per cent owned by Djerriwarrh Investments Limited.

The Managing Director is responsible to the Issuer for the performance of those services and the Board acts in close consultation and cooperation with AICS in relation to the provision of services by AICS to the Issuer. AICS is paid a fee based on its costs in providing these services.

For the financial year ended 30 June 2011 the Issuer received a report from AICS outlining the control objectives for AICS and the specific policies and procedures established to meet these objectives. These policies include management oversight, segregation of duties, multiple sign-offs and specific authorisation levels. AICS has stated that these have been in place throughout the financial year, and have been effective in meeting the control objectives. This statement and verification of it has been confirmed by AICS's internal auditors, Ernst & Young, under the requirements of Auditing Standard 810.

2.8 Disclosing Entity

The Issuer is a disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. As a company listed on ASX, the Issuer is subject to the Listing Rules which, subject to certain exceptions, require immediate disclosure to the market of any information of which the Issuer is aware which a reasonable person might expect to have a material impact on the price or value of its securities.

ASX maintains records of company announcements for all companies listed on ASX. The Issuer's announcements may be viewed on ASX's website at www.asx.com.au

ASIC also maintains records in respect of documents lodged with it by the Issuer, and these may be obtained from or inspected at any office of ASIC.

The Issuer will provide free of charge to any person who requests it during the Application period under this Prospectus a copy of:

- (a) the Issuer's Annual Report and accounts for the year ended 30 June 2011, which includes the Issuer's financial statements for the year ended 30 June 2011 (being the last financial statement of a full financial period lodged with ASIC before the date of this Prospectus);
- (b) documents released to ASX pursuant to the Issuer's continuous disclosure obligations under the Listing Rules and the Corporations Act since the lodgement of the financial statements referred to in paragraph (a) above. Such releases are available on ASX's website (www.asx.com.au); and
- (c) the Issuer's Constitution.

Further information about AFIC is available from the Issuer's website at www.afi.com.au

SECTION 3: EFFECT OF THE OFFER

3.1 Historical and Pro Forma Financial Information

(a) Basis of Preparation

The financial information in section 3.1(c) has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

The financial information in section 3.1(c) is presented in an abbreviated form and does not contain all of the disclosures required by Australian Accounting Standards in an annual financial report prepared in accordance with the Corporations Act.

The historical consolidated balance sheet as at 30 June 2011 has been extracted from the Issuer's 30 June 2011 audited financial report. The Issuer's annual financial report for 30 June 2011 was audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards. The audit opinion issued to the Issuer in relation to the financial report was unqualified. A complete version of the Issuer's financial report as at 30 June 2011 is available from the Issuer's website, www.afi.com.au or from ASX's website, www.asx.com.au

The pro forma consolidated balance sheets as at 30 June 2011 have been prepared by the Directors and assume completion of the transactions detailed in section 3.1(b). The accounting policies used in preparation of the pro forma consolidated balance sheets are consistent with those set out in the Issuer's Annual Report for the year ended 30 June 2011.

(b) Pro Forma Adjustments

The pro forma consolidated balance sheets adjust the historical consolidated balance sheet as at 30 June 2011 for the impact of the Offer as if the Offer was completed at 30 June 2011. The adjustments made to the pro forma balance sheets reflect two scenarios being either:

- a minimum subscription level – issue of \$100 million of AFIC Notes, net of the expected costs incurred in respect of the issue of \$1.4 million; or
- the target subscription level – issue of the target subscription of \$200 million of AFIC Notes, net of the expected costs incurred in respect of the issue of \$2.4 million.

Costs associated with the note issue will be incurred on issuance of AFIC Notes and will be amortised over their tenure.

(c) Historical and Pro Forma Consolidated Balance Sheet

Set out following is a summary of the Issuer's historical consolidated balance sheet as at 30 June 2011, together with pro forma adjustments and pro forma consolidated balance sheets as at 30 June 2011.

SECTION 3: EFFECT OF THE OFFER CONTINUED

Pro Forma Balance Sheet

	Actual as at 30 June 2011 \$'000	Pro Forma Adjustment for Minimum Raising \$'000	Pro Forma Based on Minimum Subscription (\$100 Million) \$'000	Pro Forma Adjustment for \$200 Million Raising \$'000	Pro Forma Based on Target Subscription (\$200 Million) \$'000
Assets					
Current assets					
Cash	7,344	98,600	105,944	197,600	204,944
Receivables	38,302		38,302		38,302
Trading portfolio	125,419		125,419		125,419
Total current assets	171,065		269,665		368,665
Non-current assets					
Fixtures and fittings	466		466		466
Investment portfolio	4,759,268		4,759,268		4,759,268
Deferred tax assets	1,505		1,505		1,505
Total non-current assets	4,761,239		4,761,239		4,761,239
Total assets	4,932,304		5,030,904		5,129,904
Liabilities					
Current liabilities					
Payables	2,099		2,099		2,099
Tax payable	7,237		7,237		7,237
Borrowings	50,000		50,000		50,000
Provisions	1,989		1,989		1,989
Interest-rate hedging contracts	96		96		96
Total current liabilities	61,421		61,421		61,421
Non-current liabilities					
Provisions	948		948		948
Deferred tax liabilities – investment portfolio	635,140		635,140		635,140
Face value of convertible notes		100,000		200,000	
Deferred borrowing costs		(1,400)		(2,400)	
Total convertible notes	-		98,600		197,600
Total non-current liabilities	636,088		734,688		833,688
Total liabilities	697,509		796,109		895,109
Net assets	4,234,795		4,234,795		4,234,795
Shareholder Equity					
Share capital	1,911,440		1,911,440		1,911,440
Revaluation reserve	1,492,700		1,492,700		1,492,700
Realised capital gains reserve	350,385		350,385		350,385
General reserve	23,637		23,637		23,637
Interest-rate hedging reserve	(96)		(96)		(96)
Retained profits	456,166		456,166		456,166
Parent entity interest	4,234,232		4,234,232		4,234,232
Minority interest	563		563		563
Total equity	4,234,795		4,234,795		4,234,795

(d) Portfolio Market Value Movements Since 30 June 2011

In accordance with the Issuer's accounting policies the investment and trading portfolios are revalued to market value continuously. Investors should be aware that the market value of these portfolios has declined from that reported at 30 June 2011 (disclosed above) to the date of this Prospectus as a result of market falls. The net tangible asset backing per share as at 31 October 2011 was \$4.47 compared to \$4.79 at 30 June 2011. The net tangible asset backing per share will be announced on a monthly basis to ASX and NZX.

The Issuer's profit is derived, to a great extent, from the dividends and distributions that it receives from companies that it invests in and the market movement of any investments that are valued as part of profit (e.g. the trading portfolio). The dividends that it receives, and the value of investments that are accounted for as part of profit, will therefore vary from year to year as a result of the dividend policies of the companies that AFIC invests in, the acquisition and disposal of investments and market volatility.

3.2 Summary Financial Information and Metrics

(a) Assets, Liabilities and Equity

AFIC had total assets of \$4.9 billion, total liabilities of \$0.7 billion and total equity of \$4.2 billion as at 30 June 2011. The market value of AFIC's equity as at 30 June 2011 (AFIC's market capitalisation) was \$4.5 billion.

Under clause 3.4 of the Terms of Issue, the Issuer covenants, for the benefit of Holders and for so long as AFIC Notes remain on issue, that the Issuer's Tangible Net Worth will not fall below either \$1.0 billion or 50 per cent of its Total Tangible Assets.

(b) Loans and Debt

As at the date of this Prospectus, AFIC is not in default on current loan covenants or debt obligations.

(c) Gearing Ratio

The gearing ratio indicates the extent to which the assets of the Issuer are funded by debt. Generally, a higher ratio indicates greater use of borrowings.

As at 30 June 2011, AFIC had a gearing ratio of 1.2 per cent calculated before the effect of this Offer of AFIC Notes and using the following formula:

$$\text{Gearing ratio} = \frac{\text{Interest bearing liabilities}}{\text{Total equity}}$$

Based on the pro forma balance sheet in section 3.1 and assuming \$200 million is raised as a result of the Offer, the Issuer would have a gearing ratio of 5.9 per cent based on the above calculation methodology.

Under clause 3.4 of the Terms of Issue, the Issuer covenants, for the benefit of Holders and for so long as AFIC Notes remain on issue, that the Issuer's Tangible Net Worth will not fall below 50 per cent of its Total Tangible Assets. Based on the pro forma balance sheet in section 3.1 and assuming \$200 million is raised as a result of the Offer, the Issuer would have a tangible net worth of 82.5 per cent of its Total Tangible Assets.

(d) Interest Cover

Interest cover gives an indication of an Issuer's ability to meet its interest payments from earnings. It therefore provides important information about the Issuer's financial sustainability and the risks associated with the Issuer's level of borrowings. A low interest cover ratio may indicate that the Issuer could face difficulties in servicing its debt if earnings decrease or interest rates increase.

AFIC has an interest cover of 71 times, calculated before the effect of this Offer using the following formula and information derived from its 30 June 2011 financial statements:

$$\text{Interest cover} = \frac{\text{EBIT}}{\text{Net interest expense}}$$

Taking into account an issue of \$200 million of AFIC Notes as if it had occurred at 1 July 2010, and otherwise based on its 30 June 2011 financial statements, AFIC would have had an interest cover of 15 times. This calculation does not assume any additional return to AFIC as a result of investing the proceeds of the Offer. This information is provided for illustrative purposes only and is not represented as being indicative of the future performance of AFIC.

3.3 AFIC's Existing Debt Facilities and Debt Maturity

As of the date of this Prospectus, the Issuer has \$250 million of cash advance facilities with major Australian banks which were entered into for periods of one to three years, are unsecured and may be drawn upon from time to time, usually for no more than three months. As at 11 November 2011 the Issuer had drawn down \$133 million on these facilities.

3.4 Effect of Offer if More or Less than \$200 Million is Raised

AFIC may accept more or less than \$200 million of Applications which may increase or decrease the aggregate outstanding Face Value of AFIC Notes. Such an increase or decrease will impact on the ratios detailed in section 3.2.

SECTION 4: RISK FACTORS

There are a number of factors, both specific to the Issuer, to the AFIC Notes and of a general nature, which may affect the future operating and financial performance of the Issuer and the value of an investment in AFIC. Some of these factors can be mitigated by appropriate commercial action such as diversification of the Issuer's investments across a broad range of companies. However, many are outside the control of the Issuer, are dependent on general economic and financial market conditions or otherwise cannot be mitigated. This section describes some of the risks associated with an investment in AFIC.

Before deciding to invest in the Issuer, prospective investors should consider carefully the following factors, as well as the other information contained in this Prospectus and, if they consider it appropriate, take professional advice from their accountant, stockbroker, solicitor or other professional adviser.

4.1 General Risks

General risk factors outside the control of AFIC which may have a significant impact on the future performance of AFIC include but are not limited to the following:

- economic conditions in Australia and internationally which may have a negative impact on capital markets;
- many developed economies face major structural issues, particularly high sovereign debt levels;
- markets are likely to remain volatile for some time given international financial conditions;
- earnings of companies in Australia which in the medium term may be negatively impacted by the general weakness in economic conditions;
- a slowdown in emerging markets, including China which may impact economic growth in Australia;
- changes in investor sentiment and perceptions in local and international stock markets;
- changes in interest rates, exchange rates and the rate of inflation;
- changes in domestic or international fiscal, monetary, regulatory and other government policies, including changes to the taxation of company income and gains and the dividend imputation system in Australia; and
- geo-political conditions such as acts or threats of terrorism, military conflicts or international hostilities.

In addition, investors should be aware that there are risks associated with any investment in equity securities. Prospective investors should recognise that the trading price of AFIC's shares may fall as well as rise with movements in the equity capital markets in Australia and internationally.

It should be noted that there is no guarantee that the Ordinary Shares will trade at or above the Conversion Price. It should also be noted that the historic share price performance of AFIC's shares provides no guidance as to its future share price performance.

As a listed investment company, the market value of shares in AFIC may be adversely impacted by the volume of shares being bought or sold at any point in time. Where there are relatively fewer buyers, the price at which an investor may be able to sell its shares in AFIC may be adversely impacted.

4.2 Specific Company Risks

Key risks relating to AFIC are set out below. It is not, however, possible to describe all the risks to which AFIC may become subject and which may impact adversely on AFIC's prospects and performance. Specific risk factors which may have a significant impact on the future performance of AFIC include the following:

- the success of the investment strategies of AFIC;
- the performance of the specific companies in which AFIC invests;
- the level of dividend payments made by the companies in which AFIC invests;
- the market prices of the securities in which AFIC invests;
- the market liquidity of the securities in which AFIC invests;
- the size of the investment portfolio and the ability to diversify risk;
- the size of the trading portfolio;
- impairment of AFIC's reputation arising from factors which could include poor performance, failure to meet regulatory obligations, involvement in public controversy in companies in which it invests or other high profile issues, shareholder malcontent, inappropriate executive remuneration or contagion from reputational concerns of other LICs;
- the level of borrowing which the Issuer undertakes (also known as gearing); and
- requirements of Australian tax law in relation to listed investment companies.

4.3 Risks Associated with Investing in AFIC Notes Interest Payments

AFIC expects to make interest payments using available cash balances and cash flow from the Issuer's investments. AFIC's ability to generate cash flows from its operations will depend substantially on the performance of its investments in ASX listed companies. The interest payments on the AFIC Notes are not guaranteed by AFIC, the Trustee or any other entity.

Interest Rate Risk

Interest on the AFIC Notes is fixed at 6.25 per cent per annum payable semi-annually in arrears. No adjustment will be made to the rate of interest paid to Holders as other market based interest rates rise or fall.

The market price of the AFIC Notes on ASX may fluctuate due to changes in interest rates generally, credit spreads on other corporate securities or investor sentiment towards AFIC.

Inflation Rate Risk

An increase in the inflation rate may erode in real terms the value of the capital invested in AFIC Notes. It may also negatively impact the profitability of the companies in which AFIC invests and the market value of the shares of those companies.

Financial Market Conditions

The market price of AFIC Notes will fluctuate due to various factors, including worldwide economic conditions, interest rates, credit spreads on other corporate securities, general movements in the Australian and international equity markets, movements in the market price of Ordinary Shares, factors which may affect AFIC's financial position and earnings and investor sentiment.

The market price of AFIC Notes may be more sensitive than that of Ordinary Shares to changes in interest rates, and AFIC Notes could trade on ASX at a price below the issue price.

The Ordinary Shares held as a result of any conversion of AFIC Notes will, following conversion, rank equally with existing Ordinary Shares. Accordingly, their value after any conversion date will depend upon the market price of Ordinary Shares.

Volatility of Market Price of Ordinary Shares

The market price of the Ordinary Shares may be volatile. The volatility of the market price of the Ordinary Shares may cause volatility in the price of AFIC Notes and affect the ability of Holders of AFIC Notes to sell the AFIC Notes at an acceptable price. Additionally, this may result in greater volatility in the market price of the AFIC Notes than would be expected for non-convertible debt securities.

Liquidity

The market for AFIC Notes is likely to be less liquid than the market for Ordinary Shares. There can be no assurance that investors will be able to buy or sell AFIC Notes on ASX. AFIC will seek quotation of the AFIC Notes on ASX to permit on market trading of the AFIC Notes.

Redemption Risk

AFIC expects to be able to redeem the AFIC Notes using the proceeds from future debt or equity raisings, cash flows from operations (if available) or proceeds from the sale of investments. There is a risk that AFIC would be unable to procure or raise sufficient cash resources from future debt or equity raisings or sale of investments and would, in that case, have insufficient cash flows to redeem the AFIC Notes at the Maturity Date.

None of AFIC, the Trustee or any other entity have guaranteed the redemption of the AFIC Notes.

Early Redemption

AFIC Notes may be redeemed early by AFIC in certain circumstances. The Repayment Amount may be less than the previously prevailing market value of AFIC Notes. Additionally, in the event of an early redemption of AFIC Notes, you may not receive the returns you expected to achieve on your AFIC Notes (if held until maturity) by investing the proceeds in alternative investment opportunities available at that time.

Ranking

Subject to security being granted through the negative pledge detailed in clause 3.3 of the Terms of Issue, if AFIC is wound-up, Holders will rank behind secured creditors of AFIC and equally with other unsecured and unsubordinated creditors of AFIC and ahead of Shareholders.

If there is a shortfall of funds on winding-up, there is a risk that Holders will not receive a full (or any) repayment of their money invested in the AFIC Notes or payment of unpaid interest.

Conversion

The Ordinary Shares held by Holders following conversion of their AFIC Notes will have the same rights as other Ordinary Shares, which are different from the rights attached to AFIC Notes.

The market price of the Ordinary Shares may fluctuate over time as a result of a number of factors.

Future Payment of Dividends

The amount of future dividends actually paid will be determined by the Board of AFIC having regard to its operating results, financial position and available franking credits. A change in dividend policy or dividend levels may impact the market value of AFIC Notes.

Dividends on Ordinary Shares

Payment of any dividends on Ordinary Shares issued on conversion of the AFIC Notes is at the discretion of Directors. Holders whose AFIC Notes are converted after the record date for a dividend will have no entitlement to that dividend. Directors may only declare or determine a dividend if there are funds legally available to pay dividends. AFIC Notes will not be entitled to participate in any dividends on the Ordinary Shares.

Further Issues of Securities

AFIC may issue further securities with the same or different Terms as the AFIC Notes. AFIC may issue other securities, including further AFIC Notes that rank for interest, redemption or payment in a winding-up of AFIC equally with or behind the AFIC Notes, without the approval of Holders.

Dilution

AFIC may undertake additional offerings of securities in the future. The increase in the number of issued Ordinary Shares or securities convertible into Ordinary Shares and the possibility of sales of such securities may depress the price of Ordinary Shares already on issue and of the AFIC Notes. In addition, as a result of the issue of Ordinary Shares, the voting power and proportionate economic interest of the Issuer's existing Shareholders (and, indirectly, of holders of AFIC Notes) will be diluted. The Terms provide for an adjustment to the Conversion Price or participation rights in relation to only a limited class of future offerings of securities or in situations where it is lawful to do so (refer Terms of Issue described in section 7).

Change in the Australian Tax System

Prospective investors should be aware that any future changes in Australian tax law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of the acquisition, holding and disposal of AFIC Notes.

Enforcement Risk

The Terms provide that rights under the AFIC Notes and the AFIC Notes Trust Deed may generally only be enforced by the Trustee and not by the Holders directly. Holders must therefore notify their claims to the Trustee and rely on enforcement by the Trustee, except in certain circumstances where the Trustee has failed to take action after being directed by Holders to do so. Holders may, by ordinary or special resolution, waive breaches or amend the AFIC Notes Trust Deed. A large Holder may influence the outcome of any such vote.

SECTION 5: AUSTRALIAN TAX IMPLICATIONS

This section contains a general description of the Australian tax consequences of acquiring, holding and disposing of the AFIC Notes.

The description applies only to Holders who are individuals and who acquire, hold and dispose of the AFIC Notes as a capital investment. It does not apply to Holders which are companies, trusts or other types of entities and it does not apply to Holders who acquire, hold or dispose of the AFIC Notes as part of the conduct of a business, or who otherwise hold the AFIC Notes on revenue account or as trading stock nor to Holders who are subject to the taxation of financial arrangements rules contained in Division 230 of the Tax Act in relation to gains and losses on their AFIC Notes.

The actual taxation consequences of acquiring, holding and disposing of the AFIC Notes will vary depending upon the particular circumstances of each Holder. Therefore, prospective Holders should obtain independent professional advice relating to their own specific circumstances and should not rely on the summary below.

This summary assumes that all relevant transactions are carried out in the manner described in this Prospectus and is based upon the law in effect at the date of this Prospectus. Prospective investors should note that taxation law and its interpretation is subject to change.

5.1 AFIC Notes as Debt Interests

Because AFIC will have an 'effectively non-contingent obligation' to repay the Principal Amount, plus any accrued but unpaid interest, on the AFIC Notes on the Maturity Date, the AFIC Notes should be 'debt interests' issued by AFIC, notwithstanding that the Holders will have the right to convert their AFIC Notes into Ordinary Shares in AFIC in accordance with the Terms of Issue. Therefore, interest payable on the AFIC Notes should not be frankable distributions for tax purposes.

5.2 Australian Resident Individuals

(a) Payments of Interest

Payments of interest in respect of the AFIC Notes must be included in the assessable income of Holders who are residents of Australia for Australian income tax purposes, generally in the year of income in which the payments are received.

Holders are not required to quote their tax file number to AFIC in connection with their acquisition of the AFIC Notes, but AFIC will be required to withhold and remit to the Australian Taxation Office a portion (currently 46.5 per cent) of any interest payable on the AFIC Notes to a Holder who has not validly quoted their tax file number in connection with their acquisition of the AFIC Notes (or provided evidence of an applicable exemption from withholding). Where withholding is required, the Holder would

be entitled to claim from the Australian Taxation Office a credit for the amount which AFIC withheld from that Holder and remitted to the Australian Taxation Office.

No additional amounts are payable to a Holder if withholding is required because that Holder did not validly quote a tax file number or provide evidence of an applicable exemption.

(b) Sale or Redemption of AFIC Notes

The AFIC Notes held by Australian resident individuals should be subject to the rules applicable to traditional securities. Therefore, any gain made on the sale or redemption of the AFIC Notes (where the amount received on sale or redemption exceeds the cost of subscribing for or purchasing the AFIC Notes), would be included in the assessable income of the Australian resident Holder, usually in the year of income in which the Holder becomes entitled to receive the proceeds of sale or the redemption amount. In those circumstances, the gain would generally not be subject to the capital gains tax provisions and the Australian Capital Gains Tax (CGT) discount would not apply, even if the AFIC Notes were held for more than 12 months.

Similarly, any loss made by an Australian resident individual Holder from the sale or redemption of the AFIC Notes (where the amount received on sale or redemption is less than the cost of subscribing for or purchasing the AFIC Notes), would be an allowable deduction, usually in the year of income in which the Holder becomes entitled to receive the proceeds of sale or the redemption amount. Again, the capital gains tax provisions would generally not apply in relation to the loss incurred in those circumstances.

(c) Conversion to Ordinary Shares

A Holder of an AFIC Note may request conversion of the AFIC Note into Ordinary Shares. A conversion will entail the redemption of the AFIC Notes for the redemption amount and an application of that amount in subscribing for a prescribed number of Ordinary Shares in AFIC. The conversion would generally be ignored for the purposes of both the traditional security rules described above and the CGT rules, such that there will be no taxing point at the time of conversion under those rules. Instead, the Ordinary Shares acquired pursuant to the conversion will be treated as having a cost base that is, in broad terms, equal to the cost base of the AFIC Notes at the time of conversion plus any amount paid on conversion (where applicable).

Any gain or loss on the ultimate disposal of the Ordinary Shares will be subject to the CGT provisions and it will not be necessary, or possible, to treat the pre-conversion period as on revenue account.

A Holder will be taken to have acquired the Ordinary Shares acquired pursuant to a conversion at the time of the conversion.

This will be relevant in ascertaining whether a Holder is entitled to a CGT discount if the Holder makes a capital gain on the ultimate disposal of the Ordinary Shares because CGT assets must be held for 12 months or more prior to disposal in order for any capital gain on the disposal to be subject to the CGT discount. Holders should seek their own advice regarding their entitlement to the CGT discount upon an ultimate disposal of any Ordinary Shares acquired pursuant to a conversion.

5.3 Non-Australian Residents

(a) Australian Tax Treatment of Interest

If a Holder of AFIC Notes is not a resident of Australia for Australian tax purposes, interest payable to that Holder would generally not be subject to Australian income or withholding tax, provided that the non-resident Holder does not hold the AFIC Notes in connection with the conduct of any business in Australia and also provided that AFIC issues the AFIC Notes in a manner which satisfies the public offer test and other requirements for exemption from non-resident interest withholding tax, which it is AFIC's intention to do.

(b) Sale or Redemption of AFIC Notes

A non-resident Holder of AFIC Notes would generally not be subject to Australian tax on a gain (or loss) from the sale or redemption of AFIC Notes under the traditional security provisions, provided that any gain made from that sale or redemption was not from sources in Australia. Although the application of the source rules depends heavily on the particular facts and circumstances of each case, and can be uncertain, gains from the sale or redemption of AFIC Notes by a non-resident Holder should generally not be taken to be from Australian sources if the non-resident Holder acquired, held and disposed of the AFIC Notes outside Australia. It is important to note that a non-resident Holder may however be subject to tax on the disposal of the AFIC Notes in their own tax jurisdiction and accordingly should seek their own taxation advice in relation to this issue.

Even if a gain from the sale or redemption of the AFIC Notes by a non-resident Holder is treated as being derived from sources in Australia, that gain may be exempt from Australian tax under the provisions of an applicable Double Tax Treaty between Australia and the country of residence of the Holder. Non-resident Holders should seek their own taxation advice in relation to this issue.

In addition, where a non-resident Holder holds their AFIC Notes in connection with carrying on a business through a permanent establishment in Australia, or where the non-resident Holder holds AFIC Notes which are considered to have an indirect interest in Taxable Australian Property, the disposal of the AFIC Notes may also be a taxable CGT event. Non-resident Holders should seek their own taxation advice in relation to this issue.

(c) Conversion to Ordinary Shares

As described above in relation to Australian resident Holders, the conversion of an AFIC Note would generally be ignored for the purposes of both the traditional security rules and the CGT rules, such that there will be no taxing point at the time of conversion under those rules. Instead, the Ordinary Shares acquired pursuant to the conversion will be treated as having a cost base that is, in broad terms, equal to the cost base of the AFIC Notes at the time of conversion plus any amount paid on conversion (where applicable) with a Holder being taken to have acquired the Ordinary Shares at the time of the conversion.

Any gain or loss by a non-resident Holder on the ultimate disposal of the Ordinary Shares should only be subject to the Australian CGT provisions if the non-resident's shareholding is held by the non-resident in connection with carrying on a business through a permanent establishment in Australia or if the non-resident's shareholding is considered an indirect interest in Taxable Australian Property. Otherwise, the CGT rules should not apply to tax any gain by a non-resident Holder on the ultimate disposal of their AFIC Ordinary Shares. Non-resident Holders should seek their own taxation advice as to whether their Ordinary Shares may be subject to the operation of the Australian CGT provisions.

(d) Non-Australian taxes

Holders who are not residents of Australia may be subject to other tax consequences in their own country of residence.

5.4 Other Taxes

Holders of AFIC Notes will generally not be subject to any Australian Goods and Services Tax or stamp duties in any Australian State or Territory in respect of their acquisition, holding, sale, redemption or conversion of AFIC Notes or the receipt of interest payable on AFIC Notes.

SECTION 6: ADDITIONAL INFORMATION

6.1 Rights Attaching to Ordinary Shares

The shares issued on conversion of the AFIC Notes will be Ordinary Shares and will rank equally with all existing Ordinary Shares. The rights attaching to Ordinary Shares are set out in the Issuer's Constitution which is available free of charge from the Issuer or from the Issuer's website at www.afi.com.au

The following is a broad summary of rights which attach to Ordinary Shares. It is not intended to be an exhaustive or definitive summary of the rights attaching to Ordinary Shares.

Voting Rights

Subject to restrictions on voting from time to time affecting any particular Shareholder or any class of shares and subject to any contrary provisions of the Constitution, at a meeting of Shareholders, each Shareholder entitled to vote may vote in person or by proxy or attorney or, being a corporation, by a duly authorised representative, and has one vote on a show of hands and one vote per Ordinary Share on a poll.

Dividends

The Directors may from time to time determine or declare that a dividend is payable. The Directors may fix the amount, the time for payment and the method of payment of a dividend. The method of payment may include the payment of cash, the issue of shares, the grant of options and the transfer of assets, including shares or other securities in another body corporate (or any combination of them). No dividend bears interest against the Issuer. Subject to any special rights or restrictions attached to any shares, every dividend on a share in the Issuer is to be paid as follows, unless otherwise determined by the Directors:

- (i) if the share to which a particular dividend relates is fully paid and was fully paid during the whole period in respect of which the dividend is to be paid, that dividend is equal to the dividend paid on each other share which was fully paid during the whole period in respect of which the dividend is to be fully paid; and
- (ii) if the share to which a particular dividend relates is partly paid, or is fully paid but was not fully paid during the whole of the period in respect of which the dividend is to be paid, that dividend is apportioned, and paid proportionately to the amounts paid (not credited) on the share in respect of which the dividend is to be paid with respect to the issue price of the share (excluding amounts credited) during any part or parts of the period in respect of which the dividend is to be paid.

Transfer

Subject to the Constitution, the Corporations Act, the Listing Rules and ASX Settlement Operating Rules, Ordinary Shares are freely transferable. Subject to the Listing Rules and the Corporations Act, the Directors may refuse to register a transfer or apply a holding lock to prevent a transfer of Ordinary Shares only in limited circumstances (for example, where the Issuer has a lien on those shares).

Winding Up

If the Issuer is wound up, whether voluntarily or otherwise, the liquidator may divide among all or any of the contributories as the liquidator thinks fit in kind any part of the assets of the Issuer, and may vest any part of the assets of the Issuer in trustees on any trusts for the benefit of all or any of the contributories as the liquidator thinks fit. Any division may be otherwise than in accordance with the legal rights of the contributories and, in particular, any class may be given preferential or special rights or may be excluded altogether or in part, but if any division otherwise than in accordance with the legal rights of the contributories is determined, any contributory who would be prejudiced by the division has a right to dissent and ancillary rights as if the determination were a special resolution passed under the Corporations Act relating to the sale or transfer of the Company's assets by a liquidator in a voluntary winding up.

The ranking of Ordinary Shares is set out on page 7.

Variation of Rights

The rights, privileges and restrictions attaching to the Ordinary Shares can only be varied by a special resolution passed at a meeting of Shareholders by those Shareholders present at the meeting or by proxy who hold at least 75 per cent of the votes attaching to Ordinary Shares.

6.2 AFIC Notes Trust Deed

The AFIC Notes Trust Deed governs the terms and conditions on which the AFIC Notes are to be issued and is subject to the Corporations Act and ASX Listing Rules. Schedule 1 to the AFIC Notes Trust Deed contains the Terms of Issue of the AFIC Notes. Those Terms of Issue are set out in section 7.

The following is a summary of the AFIC Notes Trust Deed. To obtain a complete understanding of the AFIC Notes Trust Deed it is necessary to read it in full. A complete copy of the AFIC Notes Trust Deed is available for inspection without charge during normal office hours at the registered office of the Issuer at Level 21, 101 Collins Street, Melbourne Victoria 3000 within seven days after lodgement of this Prospectus. The AFIC Notes Trust Deed will also be released to ASX and will be available from its website (www.asx.com.au).

(a) Legal Nature of the AFIC Notes

The AFIC Notes Trust Deed provides that the AFIC Notes:

- rank equally between themselves;
- are redeemable, unsecured convertible notes in the Issuer; and
- do not carry a right to vote at any general meeting or to dividends of the Issuer.

The Issuer's obligations in relation to the AFIC Notes, as constituted by and specified in the AFIC Notes Trust Deed, are to the Trustee and to those persons who are registered as Holders. The Issuer may elect to issue certificates to Holders.

(b) Issuer's Undertakings

Under the AFIC Notes Trust Deed, the Issuer undertakes to the Trustee and each Holder that it shall among other things:

- provide without charge, to the Trustee and to each Holder who requests it in accordance with section 318(2) of the Corporations Act, a copy of the Issuer's consolidated audited accounts in respect of each financial year and a copy of the Issuer's Annual Report for that financial year, at the time required by the Corporations Act;
- whenever requested by the Trustee, give to the Trustee such information as the Trustee reasonably considers necessary for the purposes of the discharge of the duties, trusts and powers vested in the Trustee under the AFIC Notes Trust Deed or imposed on it by law;
- promptly give the Trustee copies of all material documents and notices received by it from any Holder or which it gives to a Holder;
- use its best endeavours to ensure that the AFIC Notes are, upon their issue, quoted on ASX and that such quotation is maintained; and
- comply in all material respects with all laws binding on it with respect to the AFIC Notes.

(c) Trustee's Undertakings

Under the AFIC Notes Trust Deed the Trustee makes certain undertakings including that it will act continuously as Trustee of the AFIC Notes Trust until the earlier of the termination of the AFIC Notes Trust or the Trustee has retired or been removed from office in the manner provided under the AFIC Notes Trust Deed or if applicable, the Corporations Act.

(d) Powers of the Trustee

In addition to those powers arising under law, the Trustee has certain powers and discretions as set out in the AFIC Notes Trust Deed, including the power:

- to waive any breach by the Issuer of its obligations under the AFIC Notes Trust Deed, including any Event of Default, on the instructions of Holders by Special Resolution;
- to waive minor breaches of a formal, technical or administrative nature;
- to delegate its functions; and
- to amend the AFIC Notes Trust Deed in certain circumstances by agreement with the Issuer (and beyond this, modifying the AFIC Notes Trust Deed requires a Special Resolution of Holders).

The Trustee may hold AFIC Notes and may enter into transactions with the Issuer or any Related Body Corporate of the Issuer.

(e) Limited Liability and Indemnity of Trustee

The liability of the Trustee is limited in the manner set out in the AFIC Notes Trust Deed. The Trustee will not be liable for loss caused by (among others):

- the Trustee's acts, mistakes or omissions, whether or not in accordance with the terms of the AFIC Notes Trust Deed, including reliance on the Register or the opinion, advice or information of an adviser of the Trustee;
- any act, omission, neglect or default of the Issuer; or
- any loss or damage occurring as a result of exercising or failing to exercise or purporting to exercise any right or power under the AFIC Notes Trust Deed.

The Trustee will be indemnified against and for all fees, actions, losses, costs, charges, expenses, Taxes and liabilities (including solicitor and client and party and party costs) incurred and payments made in or about the execution, administration or enforcement of the AFIC Notes Trust Deed, among others.

6.3 Offer Management Agreement

AFIC and the Lead Manager entered into an offer management agreement on or about the date of this Prospectus (the Offer Management Agreement). Under the Offer Management Agreement, the Lead Manager has agreed to manage the Offer, including to conduct the Bookbuild, and to provide settlement support for the Broker Firm Offer.

(a) Commission, Fees and Expenses

Under the Offer Management Agreement, AFIC has agreed to pay the following fees:

Arranger and Management Fee: On the issue of any Notes under the Prospectus the Arranger will be paid an Arranger and Management Fee of 2 per cent of the total amount raised or to be raised under the Broker Firm Offer.

The Lead Manager will pay a distribution fee to Syndicate Brokers of 1 per cent of the total amount raised by Syndicate Brokers under the Broker Firm Offer.

Shareholder Offer Fee: On the issue of any Notes under the Prospectus the Lead Manager will be paid a fixed Shareholder Offer Fee of \$50,000. In addition, the Lead Manager will be paid a fee equal to 1 per cent of the amount raised under the Shareholder Offer which bears a broker's or financial planner's stamp, including the Lead Manager's stamp. This latter amount is to satisfy the 1 per cent stamping fee which will be paid by the Lead Manager to brokers and financial planners upon verification, by the stamp of the relevant broker or financial planner, of their client's successful application in the Shareholder Offer.

All fees are exclusive of applicable GST.

AFIC must also pay the Lead Manager all agreed out-of-pocket expenses reasonably incurred by it in connection with the Offer AFIC will be responsible for the reasonable fees and disbursements of the Lead Manager's legal advisers (up to a maximum of \$25,000 exclusive of GST), and other advisers retained with AFIC's prior approval.

(b) Warranties, Undertakings and Other Terms

The parties to the Offer Management Agreement give various representations and warranties including representations and warranties in relation to corporate authority and approvals. AFIC's representations and warranties relate to matters such as:

- the compliance with the Corporations Act, Listing Rules and the Constitution in all material respects;
- the accuracy of all information provided by it to the Lead Manager in all material respects; and
- the Prospectus containing no material omissions or statements which are materially untrue, inaccurate, misleading or deceptive and containing all information required to materially comply with the Corporations Act and ASX Listing Rules.

(c) Termination Events

The Lead Manager may terminate their obligations under the Offer Management Agreement by notice to AFIC on the occurrence of any of the following termination events:

- (i) the ASX/S&P 200 Index closes at or below a level on two consecutive Business Days that is 12.5 per cent or more below its level at the time the parties enter into the Offer Management Agreement;
- (ii) any event set out in the Timetable for the Offer in the Offer Management Agreement is delayed by more than two Business Days, unless the Lead Manager consents to a variation;
- (iii) the Lead Manager forms the view there is a material omission from this Prospectus of material required to be included by the Corporations Act, or a material statement which is misleading or deceptive, or does not comply with the ASX Listing Rules, all applicable laws or regulations;
- (iv) AFIC lodges a supplementary prospectus or the Lead Manager forms the view (acting reasonably) that a supplementary prospectus must be lodged with ASIC under section 719 of the Corporations Act;
- (v) ASIC:
 - gives notice that it intends to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or makes an interim order under section 739(3) of the Corporations Act; or
 - applies for an order under section 1324B of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn before all of the AFIC Notes for which valid applications have been received have been issued by AFIC; or
 - makes an application for an order under Part 9.5 in relation to the Prospectus, or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth);
- (vi) any person (other than the Lead Manager) gives notice under section 733(3) of the Corporations Act, or any person who previously consented to the issue of the Prospectus (or any supplementary or replacement prospectus) withdraws that consent;
- (vii) AFIC withdraws the Prospectus or any supplementary or replacement prospectus or invitations to apply for AFIC Notes under the Prospectus;
- (viii) ASX announces that AFIC Shares will be delisted or removed from quotation;
- (ix) approval is refused or not granted to the official quotation of the AFIC Notes or ASX makes an official statement to any person, or indicates to AFIC or the Lead Manager that ASX approval to grant quotation of the AFIC Notes will not be given;

SECTION 6: ADDITIONAL INFORMATION CONTINUED

- (x) (*) a material adverse change not previously disclosed to ASX prior to the date of the Offer Management Agreement occurs, or an event occurs which is likely to give rise to a material adverse change in the assets or liabilities, financial position or performance, profits or losses or prospects of AFIC;
- (xi) (*) AFIC engages in conduct that is misleading or deceptive, or likely to be misleading or deceptive in connection with the Offer;
- (xii) (*) the Trustee ceases to be licensed to act as a Trustee for the purposes of Chapter 2L of the Corporations Act;
- (xiii) (*) there is a breach of any material financing arrangements to which AFIC is a party or a financier seeks to withdraw or accelerate commitments of A\$10,000,000 or more;
- (xiv) a person gives a notice to AFIC under section 730 of the Corporations Act in relation to the Prospectus and AFIC does not lodge any supplementary or replacement document in the form, with the content and within the time reasonably required by the Lead Manager (acting reasonably);
- (xv) an event of insolvency occurs with respect to AFIC or a material member of AFIC's wholly owned subsidiaries, except to the extent that subsidiary is acting as trustee or custodian;
- (xvi) a certificate under the Offer Management Agreement which is required to be provided by AFIC is not provided when required;
- (xvii) a statement in a certificate provided under the Offer Management Agreement which AFIC provides is untrue, incorrect or misleading;
- (xviii) (*) AFIC fails to perform or observe any of its material obligations under the Offer Management Agreement and such breach is incapable of remedy, or not remedied within the required timeframe;
- (xix) (*) the outbreak of hostilities or a major escalation of existing hostilities involving any one or more of Australia, New Zealand, United States of America, Japan, China, United Kingdom or any member state of the European Union, or a national emergency is declared by any one of those countries, or a major terrorist act is perpetrated on any of those countries;
- (xx) (*) a general moratorium on commercial banking activities in Australia, the United States of America, the United Kingdom or any member state of the European Union is declared by the relevant central banking authority in those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any one of those countries;
- (xxi) (*) trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for at least one trading day;
- (xxii) (*) a change in law, regulations or policy in an Australian jurisdiction which is likely to prohibit, restrict or regulate the invitation to apply for AFIC Notes under the Prospectus or materially reduce the level, or likely level, of valid applications;
- (xxiii) (*) a material breach of AFIC's constitution, a provision of the Trust Deed (as defined in the Terms of the Issue), any of the Terms, the Corporations Act or other statute;
- (xxiv) (*) an adverse change or disruption to the existing financial markets political or economic conditions in Australia, the United States of America, the United Kingdom, the member states of the European Union, Japan, Hong Kong, the Republic of China or the international financial markets or any change in national or international financial or economic conditions;
- (xxv) (*) any government agency commences any public action against AFIC or any of its wholly owned subsidiaries;
- (xxvi) (*) any Director, the AFIC chief executive officer or chief financial officer is charged with an indictable offence relating to any financial or corporate matter, or a Director is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;
- (xxvii) (*) a change in the membership of the Board or AFIC's chief executive officer;
- (xxviii) the due diligence report or other information supplied by or on behalf of AFIC to the Lead Manager in relation to the AFIC Notes, AFIC, or the Offer is materially untrue, incorrect, misleading or deceptive; (Item 17)
- (xxix) (*) AFIC or an AFIC wholly owned subsidiary or a Director of the same engages in any fraudulent conduct or activity; (Item 18(d))
- (xxx) AFIC fails to lodge the Prospectus with ASIC on or before 14 November 2011 in a form approved by the Lead Manager (such consent not to be unreasonably withheld or delayed); (Item 19)
- (xxxi) (*) AFIC alters its capital structure without the prior written consent of the Lead Manager, other than as contemplated in the Prospectus; (Item 20)
- (xxxii) (*) the constitution or any other constituent document of AFIC, the Trust Deed or the Terms of Issue is amended; (Item 21)
- (xxxiii) AFIC or a Related Body Corporate disposes, or agrees to dispose, the whole or a substantial part of its business or property other than as contemplated in the Prospectus, or ceases or threatens to cease to carry on business; (Item 25)
- (xxxiv) other than as disclosed in the Prospectus, AFIC or a Related Body Corporate charges or agrees to charge, the whole, or a substantial part of its business or property; (Item 26)
- (xxxv) a force majeure affecting AFIC's business or its obligations under this agreement lasting in excess of seven days occurs; or (Item 27)

(xxxvi) (*) there is, after the date of the Offer Management Agreement, a change or development (which was not publicly known prior to that date) involving a prospective adverse change in taxation affecting AFIC, its shares or the AFIC Notes. (Item 28(d)).

In respect of those termination events marked above with an asterisk (*), the Lead Manager may only exercise their rights to terminate the Offer Management Agreement if the Lead Manager determines, reasonably and in good faith, that the relevant termination event:

- (i) has had, or is likely to have, a material adverse effect on the Offer or all the AFIC Notes for which valid applications have been received, being issued by AFIC in accordance with the Offer; or
- (ii) could create a material liability for the Lead Manager under the Corporations Act.

(d) Termination Events

AFIC has agreed to indemnify the Lead Manager and certain affiliated persons from all losses, liabilities, claims, damages, costs and expenses incurred directly or indirectly as a result of certain events occurring in connection with the Offer. Certain limitations apply, including in relation to fraud, gross misconduct, bad faith, recklessness, wilful default or gross negligence of an indemnified party apply.

6.4 Remuneration of Trustee

Australian Executor Trustees Limited has agreed to act as Trustee in respect of the AFIC Notes. The Trustee will be paid an establishment fee of \$5,000 and an annual fee of \$25,000 (payable semi-annually in arrears) based on a maximum issue size of \$200 million.

6.5 Directors' Interests

Other than as set out below or elsewhere in this Prospectus:

- no Director has, or has had in the two years prior to lodgement of this Prospectus with ASIC, an interest in:
 - (a) the formation or promotion of the Issuer;
 - (b) any property acquired, or proposed to be acquired, by the Issuer in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer; or
 - (c) the Offer; and
- no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any Director or any proposed Director or to any firm in which any Director or proposed Director is or was a partner:

- (a) to induce that person to become, or to qualify as, a Director of the Issuer; or
- (b) for services provided by that person or by the firm in which that person is or was a partner in connection with the formation or promotion of the Issuer or the Offer.

Holdings of Ordinary Shares

The Directors have the following interests in Ordinary Shares, either directly or indirectly:

Name of Director	No of Ordinary Shares
BB Teele	2,399,381
DR Argus	521,369
RE Barker	847,473
TA Campbell	337,817
J Paterson	383,410
FD Ryan	86,767
CM Walter	141,568
PJ Williams	14,422

Remuneration

Non-Executive Directors' fees not exceeding an aggregate of \$1,000,000 per annum have been approved by the Company in general meeting. For the year ending 30 June 2011 each Non-Executive Director was remunerated \$75,000 with the exception of the Chairman who received \$150,000. Total Non-Executive Director fees were therefore \$600,000.

The Managing Director is remunerated as an executive, and details of his remuneration can be found in the Issuer's remuneration report contained in the annual report.

Indemnity, Insurance and Access

The Issuer has entered into deeds of access and indemnity with all of its Directors setting out the rights of those Directors to access Board papers and to be indemnified by the Issuer, including after they cease to be a Director.

The Issuer also maintains Directors' and officers' liability insurance to the extent allowable by law.

Directors' Participation

The Directors (and their associates) may acquire AFIC Notes offered pursuant to this Prospectus subject to the terms of the ASX waiver of Listing Rule 10.11 described below.

ASX has granted the Issuer a waiver of Listing Rule 10.11 in respect of the Offer, to the extent necessary to permit the Directors (and their associates) to participate in the Offer, without the approval of Ordinary Shareholders, on conditions

including that the number of AFIC Notes issued to Directors (and their associates) collectively is no more than 0.2 per cent of the total number of AFIC Notes issued under the Offer, the participation of Directors and their associates is on the same terms and conditions as applicable to other subscribers for AFIC Notes, and the Issuer announces to the market the total number of AFIC Notes issued to the Directors (and their associates) in aggregate.

6.6 Interests of Experts

Other than set out in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory, or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Issuer; or
- the Lead Manager to the Issue,

(each, a relevant person) holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in;

- the formation or promotion of the Issuer;
- the Offer; or
- any property acquired or proposed to be acquired by the Issuer in connection with its formation or promotion of the Offer.

Other than as set out in this Prospectus, no relevant person has paid or agreed to pay any amount or given or agreed to give any benefits for services provided by a relevant person in connection with the formation or promotion of the Issuer or the Offer.

The amounts set out below are exclusive of GST.

Allens Arthur Robinson has acted as Australian legal adviser in respect of the Offer. In aggregate, the Issuer has paid or agreed to pay approximately \$220,000 (plus disbursements) for these services to the date of this Prospectus. Further amounts may be paid to Allens Arthur Robinson in accordance with its normal time based charges.

Evans and Partners Pty Ltd has acted as the arranger, Lead Manager and bookrunner in relation to the Offer. The Issuer has agreed to pay the fees described in section 6.3 of this Prospectus.

6.7 Consents

None of the parties referred to below have authorised or caused the issue of this Prospectus or made or purported to have made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below. Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for any part of, this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below.

Allens Arthur Robinson has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent to being named in this Prospectus in the form and context in which it is named.

PricewaterhouseCoopers has given and has not, before lodgement of this Prospectus with ASIC, withdrawn their consent to being named in this Prospectus in the form and context in which it is named.

Evans and Partners Pty Ltd has given and has not, before lodgement of this Prospectus, withdrawn its consent to being named in this Prospectus in the form and context in which it is named.

Australian Executor Trustees Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent to being named in this Prospectus in the form and context in which it is named.

Each of E.L. & C. Baillieu Stockbroking Limited, Macquarie Equities Limited and RBS Morgans Limited have given and have not, before lodgement of this Prospectus with ASIC, withdrawn their consent to being named in this Prospectus in the form and context in which it is named.

6.8 Governing Law

This Prospectus, the Offer and the contracts formed on acceptance of Applications are governed by the laws applicable in Victoria. Each Applicant for AFIC Notes submits to the exclusive jurisdiction of the courts of Victoria.

6.9 Consent to Lodgement

Every Director has consented to the lodgement of this Prospectus with ASIC under the Corporations Act.

SECTION 7: TERMS OF ISSUE

1. Defined Terms

Words and expressions defined in clause 15 have the meanings given to them in that clause when used in these Terms.

2. Form and Face Value

2.1 Form

AFIC Notes are redeemable, unsecured, convertible notes issued under the Trust Deed. Holders are entitled to the benefit of and are bound by the provisions of the Trust Deed and these Terms.

2.2 Face Value and Issue Price

- (a) Each AFIC Note will have a face value of \$100 (Face Value).
- (b) Each AFIC Note will be issued by the Issuer at an issue price of \$100 or such other amount as set out in or determined in accordance with the relevant offer document (the Issue Price). The Issue Price must be paid in full on application.

2.3 Currency

AFIC Notes are denominated in Australian dollars.

2.4 No Certificates

No certificates will be issued to Holders unless AFIC determines that certificates should be available or are required by any applicable law.

2.5 Quotation

AFIC must use all reasonable endeavours and furnish any documents, information and undertakings as may be reasonably necessary in order to ensure that the AFIC Notes are, and until Repaid or Converted, remain quoted on ASX.

3. Ranking, Negative Pledge and Financial Covenant

3.1 Ranking

The AFIC Notes are direct, unsecured and unsubordinated debt obligations of AFIC and rank without preference or priority among themselves and at least equally with all present and future unsubordinated and unsecured debt obligations of AFIC (subject to laws and principles of equity generally affecting creditors' rights or as provided by operation of law). The ranking of AFIC Notes is not affected by the date of registration of any Holder in the Register.

3.2 No Security Interest

Other than as contemplated by clause 3.3, nothing in these Terms creates a Security Interest over any asset of the Issuer.

3.3 Negative Pledge

- (a) Subject to 3.3(b), so long as any of the AFIC Notes remain outstanding, AFIC may not create or permit to subsist any Encumbrance over any of its assets as security for any Relevant Indebtedness unless, in the case of the creation of an Encumbrance, prior to or simultaneously therewith, and in any other case, promptly, AFIC either:
 - (i) grants or procures to be granted an Encumbrance or Encumbrances securing AFIC's obligations under the AFIC Notes and the Trust Deed which will result in such obligations being secured equally and rateably in all respects so as to rank *pari passu* with the applicable Relevant Indebtedness; or
 - (ii) grants or procures to be granted such other Encumbrance or Encumbrances in respect of AFIC's obligations under the AFIC Notes and the Trust Deed that is not materially less beneficial to the interests of the Holders or as is approved by a Special Resolution of the Holders.
- (b) From time-to-time, the Issuer may lodge shares as collateral for options positions.

3.4 Financial Covenant

The Issuer covenants, for the benefit of Holders and for so long as AFIC Notes remain on issue, that the Issuer's Tangible Net Worth will not fall below either:

- (a) \$1,000,000,000; or
- (b) 50 per cent of its Total Tangible Assets as of 31 December and 30 June of each year.

4. Interest

4.1 Interest

- (a) Each AFIC Note bears interest on its Face Value from (and including) the Issue Date to (but excluding) the Maturity Date or any Redemption Date at the Interest Rate.
- (b) Interest is payable in arrears on each Interest Payment Date.

4.2 Calculation of Interest

- (a) The Interest Rate applicable to an AFIC Note for each Interest Period (expressed as a percentage per annum) is 6.25 per cent per annum.

- (b) The amount of interest payable on each AFIC Note for an Interest Period is calculated according to the formula:

$$\text{Interest payable} = \text{Interest Rate} \times \$100 \times N/365$$

where:

N means, in respect of:

- (i) the first Interest Payment Date in respect of an AFIC Note, the number of days from, and including, the Issue Date to, but excluding, that first Interest Payment Date; and
 - (ii) each subsequent Interest Payment Date, the number of days from, and including, the preceding Interest Payment Date to, but excluding, that Interest Payment Date or, in the case of the last Interest Period, the Maturity Date or Redemption Date.
- (c) All calculations of interest will be rounded to four decimal places. For the purposes of making any interest payment in respect of a Holder's aggregate holding of AFIC Notes, any fraction of a cent will be disregarded.

4.3 Default Interest

If an amount is not paid under these Terms when due, then interest accrues on the unpaid amount (both before and after any demand or judgment) at 8.25 per cent per annum until the date on which payment is made to the Holder.

4.4 Record Dates

All payments under or in respect of any AFIC Note will be made only to those persons registered as Holders of that AFIC Note on the relevant Record Date.

4.5 Deductions

- (a) Subject to paragraph (b), all payments under or in respect of these Terms must be made without set off or counterclaim and free of deduction for or on account of any tax or similar amount.
- (b) The Issuer may withhold or deduct from any interest or other amounts payable to a Holder the amount of any Tax which a qualified legal or taxation advisor advises that it is required by law to withhold or deduct in respect of such interest or other amount.
- (c) The Issuer shall pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and shall, if required by any Holder, deliver to that Holder a copy of the relevant receipt issued by the revenue authority without unreasonable delay after it is received by the Issuer.

4.6 No Set Off

A Holder has no right to set off any amounts owing by it to the Issuer against claims owing by the Issuer to the Holder.

4.7 Method of Payment

Any amount which is payable to Holders in respect of AFIC Notes will, unless the Issuer and Holders otherwise agree, be paid by direct credit into a nominated account at an Australian branch of a financial institution. If a Holder fails to nominate such an account, the amount may be deposited by the Issuer in a bank account in the Issuer's name established for the purpose and held by the Issuer until the Holder nominates an account. An amount so deposited shall be taken to have been duly paid to the Holder and shall not bear interest. Any interest accruing on any such account shall be paid to the Issuer.

5. Holder Exit Rights

5.1 Exit Notice – Conversion

AFIC Notes shall be convertible into the number of Ordinary Shares determined in clause 8.2, on any Interest Payment Date, by the Holder giving to the Issuer an Exit Notice (in such form as the Issuer may accept or as is then required by the ASX Listing Rules) requiring the Issuer to convert the AFIC Notes with effect on and from the first Interest Payment Date to occur following receipt of the Exit Notice provided that such Exit Notice is received by the Issuer at least 15 days prior to the relevant Interest Payment Date or such shorter period agreed to by the Issuer and the Holder.

5.2 Number of AFIC Notes to be Converted

A request under clause 5.1 requesting a Conversion may be in relation to some or all of the Holder's AFIC Notes, subject to the Face Value of the AFIC Notes the subject of the Exit Notice being at least the lesser of \$500 or the balance of the Holder's holding of AFIC Notes.

5.3 Exit Notices Upon Change of Control Event, Change in Regulation Event, Delisting Event or Event of Default

If a Change of Control Event, Change in Regulation Event, Delisting Event or Event of Default has occurred a Holder may:

- (a) in the case of a Change of Control Event, request Conversion or Repayment of all (but not some only) of the Holder's holding of AFIC Notes;
- (b) in the case of a Change in Regulation Event, request Conversion of all (but not some only) of the Holder's holding of AFIC Notes;
- (c) in the case of a Delisting Event or Event of Default, request Repayment of all (but not some only) of the Holder's holding of AFIC Notes,

in either case, by giving an Exit Notice to the Issuer no later than 15 Business Days after:

- (d) in the case of a Change of Control Event, a Change of Regulation Event or a Delisting Event, the date of the notice issued by the Issuer under clause 6.1 specifying such event; and
- (e) in the case of an Event of Default, the date of the occurrence of that event.

5.4 Other Requirements of Exit Notices

- (a) Once given by a Holder, an Exit Notice cannot be withdrawn without the written consent of the Issuer.
- (b) An Exit Notice must be accompanied by evidence of title reasonably acceptable to the Issuer for AFIC Notes the subject of the Exit Notice and is not taken to be a valid Exit Notice unless and until such evidence is actually received by the Issuer.
- (c) A Holder must not deal with, transfer, dispose of or encumber any AFIC Notes the subject of an Exit Notice once that Exit Notice has been given.
- (d) Where the Issuer has received a valid Exit Notice in respect of any particular AFIC Notes, any Exit Notice subsequently received will be taken to apply only to AFIC Notes which were not the subject of the prior Exit Notice. The Directors may apply such adjustments (if any) as the Directors consider to be reasonably necessary to reflect this.
- (e) A Holder may give an Exit Notice under clause 5.1 requesting Conversion after it has received a Realisation Notice.

6. Issuer Realisation Rights

6.1 Notice of Change in Regulation Event, Change of Control Event, Delisting Event, Event of Default

The Issuer must give notice to the Holders as soon as reasonably practicable after it becomes aware of the occurrence of a Change in Regulation Event, a Change of Control Event, an Event of Default, or a Delisting Event.

6.2 Realisation Notice

Where a notice is given under clause 6.1 in respect of a Change in Regulation Event, the Issuer may specify in that notice that it will Repay all (but not some only) of the AFIC Notes on the date which is 25 Business Days after the date of the notice, in which case that notice will be a Realisation Notice.

6.3 Effect of Realisation Notice

A Realisation Notice given under clause 6.2 is irrevocable and the Issuer must, on the date specified in that notice, Repay all AFIC Notes the subject of that notice, unless a valid Exit Notice under clause 5.1 requesting Conversion is given by a Holder in respect of the same AFIC Notes after it has received the Realisation Notice.

6.4 Identical Realisation Dates

Where the Realisation Dates specified in a Realisation Notice and an Exit Notice in respect of the same AFIC Note are identical dates, the Exit Notice will prevail over the Realisation Notice.

6.5 Purchase

Subject to compliance with any applicable law or requirement of ASX (or any stock exchange or other relevant authority on which the AFIC Notes are quoted):

- (a) the Issuer and any of its Related Bodies Corporate may at any time purchase AFIC Notes in the open market or otherwise and at any price;
- (b) if purchases are made by tender, tenders must be available to all Holders alike; and
- (c) AFIC Notes purchased under this clause 6.5 may be held or resold at the discretion of the purchaser and the AFIC Notes may also be cancelled at the Issuer's discretion.

7. Repayment

7.1 Repayment on Maturity Date

The Issuer must on the Maturity Date Repay all (but not some only) of the AFIC Notes which are not the subject of an Exit Notice that it has received or a Realisation Notice which it has issued.

7.2 Repayment Amount

Where AFIC Notes are to be Repaid under these Terms, the Issuer must pay the Holder an amount equal to the Repayment Amount for the relevant AFIC Notes on the relevant Realisation Date, plus any Accrued Interest, plus any accrued Default Interest.

7.3 Holder Action

Where the Issuer is to Repay under these Terms, the Holder must, if required by the Issuer to enable the Issuer to effect Repayment:

- (a) vote in favour (to the extent the Holder is entitled to do so) or otherwise abstain from any required resolution;
- (b) provide all documentation and execute any authorisation or power necessary; and
- (c) take all other action which the Issuer considers necessary or desirable.

8. Conversion

8.1 Conversion

- (a) On conversion of any AFIC Notes, the Issuer must:
 - (i) redeem each of those AFIC Notes for an amount equal to the Repayment Amount; and

- (ii) apply the whole of the amount payable on redemption by subscribing, on behalf of the Holder, for the number of Ordinary Shares calculated under clause 8.2.
- (b) The initial Conversion Price will be announced to ASX, NZX and on the Issuer's website on the day of the issue of AFIC Notes. If any changes to the Conversion Price occur as a result of the operation of clauses 8.3 to 8.8 the new Conversion Price will be announced to ASX, NZX and on the Issuer's website as soon as practicable.

8.2 Conversion Number

- (a) The number of Ordinary Shares to which a Holder is entitled upon Conversion of AFIC Notes is determined by the following formula:

$$\text{Number of Ordinary Shares} = \text{ARA} / \text{Conversion Price}$$

where:

ARA is the aggregate of the Repayment Amount of the AFIC Notes being converted by the Holder.

Conversion Price is a 25 per cent premium to the VWAP of AFIC Ordinary Shares traded during the five Business Days prior to the issue of AFIC Notes, which may be subsequently changed under this clause 8.

- (b) Where the number of Ordinary Shares to be issued to a Holder under clause 8.2(a) includes a fraction, that fraction will be disregarded.

8.3 Adjustments to Conversion Price for Bonus Issues

- (a) Subject to paragraph (b), if the Issuer makes a bonus issue (being a pro rata issue) of Ordinary Shares to holders of Ordinary Shares generally, the Conversion Price will be adjusted immediately under the following formula:

$$\text{CP} = \text{CPo} \times 1/P \times \frac{(\text{RD} \times \text{P})}{(\text{RD} + \text{RN})}$$

where:

CP means the Conversion Price applying immediately after the application of this formula;

CPo means the Conversion Price applying immediately before the application of this formula;

P means the VWAP during the period from (and including) the first Business Day after the announcement of the bonus issue to ASX up to (and including) the last Business Day of trading cum bonus issue (or if there is no period of cum bonus issue trading, an amount reasonably determined by the Directors as representing the value of an Ordinary Share cum the bonus issue);

RD means the number of Ordinary Shares on issue immediately before the issue of new Ordinary Shares under the rights or bonus issue; and

RN means the number of Ordinary Shares issued under the bonus issue.

- (b) For the purpose of this clause 8.3, an issue will be regarded as a pro rata issue notwithstanding that the Issuer does not make offers to some or all Ordinary Shareholders with registered addresses outside Australia, provided that in so doing the Issuer is not in contravention of ASX Listing Rules.

8.4 Adjustments to Conversion Price for Off Market Buy-Backs

- (a) Subject to paragraph (b), if the Issuer undertakes an off market buy-back under a buy-back scheme which but for any applicable restrictions on transfer would be generally available to holders of Ordinary Shares (or otherwise cancels Ordinary Shares for consideration), the Conversion Price will be adjusted immediately using the following formula:

$$\text{CP} = \text{CPo} \times 1/P \times \frac{(\text{BD} \times \text{P}) - (\text{BN} \times \text{A})}{(\text{BD} - \text{BN})}$$

where:

CP means the Conversion Price applying immediately after the application of this formula;

CPo means the Conversion Price applying immediately before the application of this formula;

P means the VWAP during the 20 Business Days before the announcement to ASX of the buy-back (or cancellation);

BD means the number of Ordinary Shares on issue immediately before the buy-back (or cancellation);

BN means the number of Ordinary Shares bought back (or cancelled); and

A means the buy-back (or cancellation) price per Ordinary Share.

- (b) No adjustment to the Conversion Price will occur if **P** exceeds **A**.

8.5 Adjustment to Conversion Price for Issues at Less than Current Market Price

If and whenever the Issuer shall issue (otherwise than as mentioned in 8.3 above or 8.6 below or in the case of a rights issue) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the convertible notes or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares), in each case at a price per Ordinary Share which is less than 95 per cent of the VWAP during the five Business Days immediately preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price will be adjusted immediately using the following formula:

$$CP = CPo \times \frac{1}{P} \times \frac{(RD \times P) + (RN \times A)}{(RD + RN)}$$

where:

CP means the Conversion Price applying immediately after the application of this formula;

CPo means the Conversion Price applying immediately before the application of this formula;

P means the VWAP during the five consecutive Business Days up to the announcement of the terms of such issue or grant to ASX;

RD means the number of Ordinary Shares on issue immediately before the issue of new Ordinary Shares under the rights or bonus issue;

RN means the number of Ordinary Shares issued at a price per Ordinary Share which is less than 95 per cent of the VWAP during the five Business Days immediately preceding the date of the first public announcement of the terms of such issue or grant; and

A means the subscription price per Ordinary Share for the issue.

8.6 Adjustment to Conversion Price for Issues Under a Share Purchase Plan or Dividend Reimbursement Plan at a Discount

If and whenever the Issuer shall issue new Ordinary Shares under a share purchase plan or dividend reinvestment plan where the pricing of new Ordinary Shares under that plan is expressly calculated as a discount to a market price and that discount is greater than 5 per cent, the Conversion Price will be adjusted immediately using the following formula:

$$CP = CPo \times \frac{RD + ((1-D) \times RN)}{(RD + RN)}$$

where:

CP means the Conversion Price applying immediately after the application of this formula;

CPo means the Conversion Price applying immediately before the application of this formula;

RD means the number of Ordinary Shares on issue immediately before the issue of new Ordinary Shares under the share purchase plan or dividend reinvestment plan;

RN means the number of Ordinary Shares issued under the plan; and

D means the discount at which new Ordinary Shares are issued under the plan.

8.7 Adjustment to Conversion Price for Return of Capital

If the Issuer makes a pro rata return of capital to holders of Ordinary Shares without cancellation of any Ordinary Shares, the Conversion Price will be adjusted under the following formula:

$$CP = CPo \times \frac{P - C}{P}$$

where:

CP means the Conversion Price applying immediately after the application of this formula;

CPo means the Conversion Price applying immediately before the application of this formula;

P means the VWAP during the period from (and including) the first Business Day after the announcement to ASX of the return of capital up to and including the last Business Day of trading cum the return of capital (or if there is no period of cum return of capital, an amount reasonably determined by the Directors as representing the value of an Ordinary Share cum the return of capital); and

C means with respect to a return of capital, the amount of the cash and/or the value (as reasonably determined by the Directors) of any other property distributed to holders of Ordinary Shares per Ordinary Share (or such lesser amount such that the difference between **P** and **C** is greater than zero).

8.8 Other Adjustments to Conversion Price

If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price where the effect of any of the adjustment provisions set out in clauses 8.3 to 8.7 is not appropriate in any particular circumstances, the Issuer shall, at its own expense and acting reasonably, request a Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this clause 8.8 if such Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

8.9 Deemed Amendment

Any adjustment of the Conversion Price under this clause 8 will be taken to be an amendment to these Terms and will be binding on all Holders and effective on delivery of the instrument of amendment to the Trustee and these Terms will be construed accordingly. Any such adjustment will promptly be notified to all Holders.

8.10 On Market Buy-Backs

No adjustment to the Conversion Price shall occur as a result of an on market buy-back of Ordinary Shares.

9. Transactions

Subject to clause 11.1, the Issuer may enter into or vary any borrowing, other financial accommodation, guarantee and indemnity and may acquire, dispose of, create any security interest over or otherwise deal with any assets without requiring any consents from Holders or the Trustee.

10. Enforcement

10.1 Events of Default

Each of the following is an Event of Default:

- (a) (non-payment) the Issuer fails to pay any amount payable by it under any AFIC Notes within 10 Business Days after the date on which the payment is due;
- (b) (non-delivery) the Issuer fails to issue Ordinary Shares on Conversion in accordance with these Terms within 10 Business Days after the date on which such issue is to be made;
- (c) (breach of other obligations) the Issuer fails to comply with any of its other material obligations under the Terms or the Trust Deed and such failure remains unremedied for a period of 30 Business Days after the Issuer has received written notice from the Trustee in respect of the failure;
- (d) (cross default) any debt of the Issuer greater than \$5,000,000 (or its equivalent in any other currencies) becomes due and payable before its stated maturity due to the occurrence of a default event under the terms of that debt (however described).
- (e) (insolvency) an Insolvency Event occurs in respect of AFIC;
- (f) (vitiation) all or any rights or obligations of the Issuer, Holders or the Trustee under the Trust Deed or these Terms are terminated or are or become void, illegal, invalid, unenforceable or of limited force and effect; and
- (g) (unlawfulness) it is, at any time unlawful for the Issuer to perform any of its payment obligations under the AFIC Notes.

10.2 Consequences of Event of Default

After the occurrence of an Event of Default, and at any time while that Event of Default subsists, the Trustee may or, if so directed by a Special Resolution of Holders, must, subject to clause 10.6, by notice in writing to the Issuer, do any one or more of the following:

- (a) specify a date not earlier than one Business Day after the date it gives notice as the Realisation Date, whereupon the Repayment Amount of all AFIC Notes shall become immediately due and payable; and/or

- (b) subject to the Trust Deed and these Terms, exercise all or any of its powers to enforce its rights under the Trust Deed and these Terms.

10.3 Directions of Creditors

Following the Trustee becoming actually aware of the occurrence of an Event of Default having regard to clause 10.2 of the Trust Deed, the Trustee must convene a meeting of Holders in accordance with clause 10.3 of the Trust Deed.

10.4 No Obligation to Act

Subject to clause 10.3, pending the receipt of directions by a Special Resolution, the Trustee shall not be bound to take any action, give any consent or waiver, or make any determination under the Trust Deed or these Terms.

10.5 Waiver

The Trustee must not waive or authorise any Event of Default unless directed to do so by a Special Resolution.

10.6 Trustee not Bound to Enforce

Without limiting the terms of the Trust Deed, the Trustee need not take any action referred to in clause 10.2 unless all the following conditions are satisfied:

- (a) the Trustee is directed to take the action by a Special Resolution; and
- (b) the Trustee is indemnified, to its satisfaction, against all costs, charges, liabilities and expenses which may be incurred by it in connection with that action; and
- (c) the Trustee is not restricted or prohibited from taking such action by any order of any competent court or any applicable law.

If the Trustee forms the view that such action is or could be inconsistent with these Terms or the Corporations Act or any applicable law, it must take steps to seek (and, if the court so determines, to obtain) as soon as reasonably practicable a court direction or order to set aside or vary the direction given by Special Resolution, and, while those steps are underway, the Trustee is not obliged to take any action or proceedings it has been directed to take by Special Resolution.

10.7 No Individual Enforcement

Unless the Trustee, having become obliged to take action to enforce the rights of the Holders under the Trust Deed and these Terms, fails to do so within 20 Business Days of being obliged to do so and such failure is continuing, the rights of each Holder to enforce the obligations of

the Issuer under AFIC Notes are limited to the exercise of its rights to enforce and seek due administration by the Trustee of the Trust Deed. In particular, unless the Trustee, having become obliged to take action to enforce the rights of the Holders under the Trust Deed and these Terms, fails to do so within 20 Business Days of being obliged to do so and such failure is continuing, no Holder may, with respect to payment of any amount due under the AFIC Notes held by it:

- (a) sue the Issuer;
- (b) obtain judgment against the Issuer; or
- (c) apply for or seek Winding Up of the Issuer.

11. General

11.1 Further documents

The Issuer may require the Trustee to execute, on behalf of all Holders, such documents as the Issuer considers necessary or desirable (provided that the Trustee is indemnified to its satisfaction, acting reasonably, against any Taxes, fees, costs, charges, expenses or liabilities (including solicitor and client as well as party and party costs) which it may suffer or incur as a result of doing so, and provided that the Trustee will only be required to execute such documents if the Holders give a direction to the Trustee by a Special Resolution passed in favour of such execution to do so).

11.2 Voting Rights

Holders may not attend or vote at meetings of members of the Issuer unless provided for by the ASX Listing Rules or the Corporations Act.

11.3 Quotation

The Issuer must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure and maintain quotation of AFIC Notes and any Ordinary Shares issued or delivered on Conversion on ASX.

11.4 Ranking of Ordinary Shares

Each Ordinary Share issued or delivered on Conversion will, as from the Realisation Date, rank equally in all respects with Ordinary Shares, except that they will not be entitled to any dividend or any other distribution or entitlement that has not been paid as at the Realisation Date but for which the record date was prior to the Realisation Date.

11.5 Participation in New Issues

If prior to the Maturity Date an offer is made by the Issuer to the holders of Ordinary Shares to subscribe for cash for securities of the Issuer or of any other corporation (whether by way of renounceable or non-renounceable rights or otherwise but not including by way of any dividend

reinvestment plan or like arrangement or by a share purchase plan), the Issuer shall procure, so far as it is legal to do so, that there is extended to each Holder the same Offer as that Holder would have received if immediately before the relevant date for determining entitlements of holders of Ordinary Shares in respect of the Offer, that Holder had converted all AFIC Notes held by the Holder to Ordinary Shares pursuant to clause 5.1 and had become registered as the Holder of the number of Ordinary Shares equivalent to the number of Ordinary Shares which the Holder would have been entitled to receive on the basis provided in clause 8.2 (a).

11.6 Reporting Requirements

In addition to any requirements of the Corporations Act and the ASX Listing Rules, each Holder (if requested by that Holder) will be provided with copies of all annual and half-yearly reports and financial statements provided to holders of Ordinary Shares.

11.7 Delivery of Ordinary Shares and Payments to Holders

- (a) Ordinary Shares which are to be issued or transferred to a Holder upon Conversion of AFIC Notes are to be registered in the name of the relevant Holder and a holding notice in respect of those Ordinary Shares is to be sent to the Holder (at its registered address in respect of the relevant AFIC Note).
- (b) Any amount (including for the avoidance of doubt any amount payable on Redemption of AFIC Notes) which is payable to Holders in respect of AFIC Notes is to be paid in the manner provided in clause 4.7.

12. Notices

12.1 Service of Notices

- (a) A notice may be given by the Issuer to any Holder, or in the case of joint Holders to the Holder whose name appears first in the Register:
 - (i) personally;
 - (ii) by leaving it at the Holder's address noted in the Register or by sending it by prepaid post (airmail if posted to a place outside Australia) addressed to the Holder's address noted in the Register;
 - (iii) by facsimile transmission to the facsimile number nominated by the Holder;
 - (iv) by publishing such notice in a national newspaper;
 - (v) by the Issuer posting the notice on the Issuer's internet website; or
 - (vi) by other electronic means, including by email, determined by the Issuer.

If the notice is signed, the signature may be original, printed or in digital format.

- (b) A notice given by a Holder to the Issuer must:
- (i) be in writing and signed by a person duly authorised by the sender; and
 - (ii) be left at, or sent by prepaid post (airmail if posted from a place outside Australia) to the address below or the address last notified by the Issuer, or sent by a facsimile transmission to the fax number last notified by the Issuer:

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne Victoria 3001
Australia

Computershare Investor Services Pty Ltd
Private Bag 92119
Auckland Mail Centre
Auckland 1142
New Zealand

12.2 When Notice Considered to be Received

Any notice is taken to be received:

- (a) if served personally or left at the intended recipient's address, when delivered;
- (b) if sent by prepaid post, on the third Business Day (or, if posted to or from a place outside Australia, the seventh day) after the date of posting;
- (c) if sent by facsimile or other electronic transmission, on production of a report by the machine or other system by which the transmission is sent indicating that the transmission has been made in its entirety to the correct fax number or other transmission address and without error;
- (d) if published in a national newspaper, on the date of such publication; or
- (e) if published on a website, on the day following the date on which such notice is posted by the Issuer on the website,

but if the result is that a notice would be taken to be given or made on a day that is not a business day in the place to which the notice is sent or is later than 5.00pm (local time) it will be taken to have been duly given or made at the commencement of business on the next business day in that place.

12.3 Notice to Transferor Binds Transferee

Every person who, by operation of law, transfer or any other means, becomes entitled to be registered as the Holder of any AFIC Notes is bound by every notice which, prior to the person's name and address being entered in the Register in respect of the AFIC Notes, was properly given to the person from whom the person derived title to those AFIC Notes.

12.4 Service on Deceased Holders

A notice served in accordance with this clause 12 is (despite the fact that the Holder is then deceased and whether or not the Issuer has notice of the Holder's death) considered to have

been properly served in respect of any AFIC Notes, whether held solely or jointly with other persons by the Holder, until some other person is registered in the Holder's place as the Holder or joint Holder. The service is sufficient service of the notice or document on the Holder's personal representative and any persons jointly interested with the Holder in the AFIC Notes.

13. Amendments to these Terms

13.1 Amendment Without Consent

At any time, but subject to compliance with the Corporations Act and all other applicable laws, the Issuer may in accordance with these Terms and the Trust Deed, without the consent of the Holders, amend these Terms:

- (a) if the Issuer is of the opinion that such amendment is of a formal or technical nature or is made to correct a manifest error;
- (b) if the Issuer is of the opinion that such amendment is:
 - (i) necessary to comply with the provisions of any law or regulation or any requirement of any Governmental Agency;
 - (ii) necessary to comply with the applicable ASX Listing Rules or the listing or quotation requirements of any securities exchange on which the Issuer may propose to seek a listing or quotation of the AFIC Notes;
 - (iii) necessary or expedient for the purpose of enabling the AFIC Notes to be listed for quotation, or to retain quotation, on any stock exchange; or
 - (iv) necessary or expedient for the purpose of enabling the AFIC Notes to be offered for subscription or for sale under the laws for the time being in force in any place,

and the Issuer has provided the Trustee with or the Trustee has obtained a legal opinion in form and substance satisfactory to the Trustee (acting reasonably) addressed to or otherwise able to be relied on by the Trustee from legal advisers of recognised standing in Victoria opining that such amendment (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) is otherwise not materially prejudicial to the interests of Holders as a whole.

13.2 Amendment with Consent

- (a) At any time, but subject to clause 13.1(b) and compliance with the Corporations Act and all other applicable laws, the Issuer may, by agreement with the Trustee, amend these Terms if such amendment is approved by a Holder Resolution or is otherwise in accordance with the Trust Deed.
- (b) The agreement of the Trustee to amend these Terms that is required under clause 13.1(a) will not be required:
 - (i) if the amendment has been approved by Holders by a Special Resolution and provided the amendment does not alter or conflict with, without its consent, any of the rights (other than rights held by the Trustee on trust for the Holders) or obligations of the Trustee; or

- (ii) in the case of any provision of these Terms or as required under any paragraph of the Meeting Provisions, which provides for Holders to give a direction to the Trustee by a Special Resolution, if a Special Resolution is passed in favour of such modification and the direction to amend the Terms is provided by the Holders to the Trustee.
- (c) The Trustee shall have no liability for any failure to provide its consent where such consent is not required pursuant to clause 13.2(b) of these Terms.

14. Governing Law and Jurisdiction

14.1 Governing Law

AFIC Notes and these Terms are governed by the laws of Victoria.

14.2 Jurisdiction

- (a) The Issuer and each Holder submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Victoria in connection with matters concerning the AFIC Notes or these Terms.
- (b) The Issuer and each Holder waives any right they have to object to an action being brought in those courts, or to claim that the action has been brought in an inconvenient forum, or to claim those courts do not have jurisdiction.

15. Interpretation

15.1 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply in the interpretation of these Terms unless the context requires otherwise.

- (a) Unless the context otherwise requires, if there is any inconsistency between the Terms and the Trust Deed, then, to the maximum extent permitted by law, the Terms will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of the Issuer under these Terms as are not, by the Corporations Act or by the Constitution of the Issuer required to be exercised by the Issuer in a general meeting.
- (c) Notices may be given by the Issuer to a Holder in the manner prescribed by the Trust Deed.
- (d) If a calculation is required under these Terms, unless the contrary intention is expressed, the calculation will be rounded to four decimal places. For the purposes of making any payment in respect of a Holder's aggregate holding of AFIC Notes, any fraction of a cent will be disregarded. For the purposes of issuing or transferring Ordinary Shares in respect of a Holder's aggregate holding of AFIC Notes, any fraction of an Ordinary Share will be disregarded.

- (e) Calculations, elections and determinations made by the Issuer under these Terms are binding on Holders in the absence of manifest error.
- (f) A reference to \$ or cents in these Terms is a reference to Australian currency. A reference to time in these Terms is a reference to Melbourne time.
- (g) The terms 'associate', 'relevant interest', 'scheme of arrangement' and 'takeover bid' when used in these Terms have the meaning given in the Corporations Act.
- (h) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (i) If an event under these Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- (j) If a term is given a defined meaning, different grammatical forms of the term have corresponding meanings.
- (k) The singular includes the plural and the converse.

15.2 Definitions

Terms defined in the Trust Deed have the same meanings in these Terms. In addition, the following expressions have the following meanings:

Accrued Interest means, at any time, interest which has accrued under clauses 4.1 and 4.2(c).

AFIC Notes means redeemable, unsecured, convertible notes issued by the Issuer under the Trust Deed and these Terms.

ASX means ASX Limited (ABN 98 008 624 691) or the stock market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX as amended or replaced from time to time, except to the extent of any express written waiver by ASX.

ASX Operating Rules means the operating rules of ASX as amended or replaced from time to time, except to the extent of any express written waiver by ASX.

Business Day means a trading day as defined in the ASX Listing Rules.

Change of Control Event means each of:

- (a) a takeover bid is made to acquire all of the Ordinary Shares and the Offer under the takeover bid is, or becomes, unconditional and:
 - (i) the bidder has acquired at any time during the Offer period a relevant interest in more than 50 per cent of the Ordinary Shares on issue; or

- (ii) the Directors of the Issuer unanimously recommend acceptance of the Offer under the takeover bid, and acceptance of that Offer would result in the bidder having a relevant interest in 100 per cent of the Ordinary Shares on issue; and
- (b) a court approves a proposed scheme of arrangement which, when implemented, will result in a person having a relevant interest in 100 per cent of the Ordinary Shares on issue.

Change in Regulation Event

- (a) in the opinion of the Directors (having obtained an opinion from a reputable accounting adviser) there is more than an insubstantial risk that the Issuer will be exposed to additional costs or the imposition of additional requirements which the Directors determine at their sole discretion to be unacceptable, as a result of the occurrence of any of the following on or after the Issue Date:
 - (i) the introduction, enactment, amendment, change, repeal, replacement or revocation of an applicable standard or regulation affecting the accounting treatment of the AFIC Notes; or
 - (ii) any pronouncement, action or decision of a Governmental Agency or ASX interpreting or applying any law or regulation or the ASX Listing Rules; and
- (b) in the opinion of the Directors (having obtained an opinion from a reputable legal adviser or other tax adviser), there is more than an insubstantial risk that the Issuer would be exposed to more than a de minimis increase in its costs (including the loss or reduction of any tax deductions available to the Issuer in connection with the payment of interest under AFIC Notes) in relation to AFIC Notes as a result of, but not limited to, increased taxes, duties or other governmental charges or civil liabilities as a result of the occurrence of any of the following on or after the Issue Date:
 - (i) any amendment to, clarification of, or change (including any announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;
 - (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (Administrative Action); or
 - (iii) any amendment to, clarification of, or change in the pronouncement that provides for a position with respect to an Administrative Action that differs from the current generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known.

Claim means, in respect of any person, any claim, action, demand, suit or proceeding for damages or other monetary compensation, debt, restitution, equitable compensation, account, injunction, specific performance or other remedy that person has or may have, whether under contract, statute or otherwise, against the Issuer.

Conversion means a Holder ceasing to hold AFIC Notes and receiving Ordinary Shares in accordance with clause 8.1. Convert and Converted have corresponding meanings.

Conversion Price has the meaning given in clause 8.2.

Corporations Act means the Corporations Act 2001 (Cth).

Creditor means all creditors of the Issuer from time to time other than the Trustee and the Holders (in their capacities as such).

Default Interest has the meaning given in clause 4.3.

Delisting Event means:

- (a) Ordinary Shares are no longer quoted on ASX;
 - (b) the AFIC Notes are no longer quoted on ASX; or
 - (c) Ordinary Shares are suspended from trading on ASX for a period of 20 consecutive Business Days,
- in any case, other than as a result (directly or indirectly) of a Change of Control Event.

Director means a director of the Issuer.

Encumbrance means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person.

Event of Default has the meaning given in clause 10.1.

Exit Notice means a notice given by a Holder to the Issuer under clause 5.1 or 5.3.

Face Value has the meaning given in clause 2.2(a).

Financial Adviser means an independent financial adviser, holding a relevant Australian Financial Services Licence, appointed by the Issuer and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee), appointed by the Trustee following notification to the Issuer provided that the Trustee has no obligation to make such appointment unless it has been indemnified and/or provided with security to its satisfaction in respect of the costs, fees and expenses of such adviser.

Financial Indebtedness means any indebtedness, present or future, actual or contingent in relation to money borrowed or raised or any other financing.

Governmental Agency means a government or a governmental, semi-government, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.

Holder means a person whose name is for the time being registered in the Register as the holder of AFIC Notes.

Holder Resolution has the meaning given to that term in the Trust Deed.

Insolvency Event occurs in relation to a body corporate if:

- (a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or
- (b) it has a controller (as defined in the Corporations Act) appointed, or is in receivership, in receivership and management, in liquidation, in provisional liquidation, under administration or wound up or has had a receiver appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute, dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the creditors); or
- (d) an Application or order has been made (and, in the case of an Application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or
- (e) it is taken (under section 459(F)(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is the subject of an event described in section 459(C)(2) (b) or section 585 of the Corporations Act (or it makes a statement from which a creditor reasonably deduces it is so subject); or
- (g) it is otherwise unable to pay its debts when they fall due; or
- (h) something having a substantially similar effect to (a) to (g) happens in connection with it under the law of any jurisdiction.

Interest Payment Date means, in respect of an AFIC Note:

- (a) 28 February 2012 and subject to paragraph (b) below, each 28 February and 31 August after that up to and including the Maturity Date; and
- (b) the date on which the AFIC Note is Converted or Repaid in which case that will be the last Interest Payment Date in respect of that AFIC Note.

If the date of payment falls on a day on which trading banks in Victoria are closed, the date of the payment will be the next day on which those banks are open.

Interest Period means in relation to an AFIC Note:

- (a) the period from (and including) the Issue Date of that AFIC Note to (but excluding) the first Interest Payment Date to occur after that Issue Date; and

- (b) subsequently, each period from (and including) an Interest Payment Date to (but excluding) the earlier of the next Interest Payment Date and the Realisation Date.

Interest Rate has the meaning given in clause 4.1.

Issue Date means, in relation to an AFIC Note, the date on which that AFIC Note is issued or is to be issued (as the context requires). The AFIC Notes are expected to be issued on 19 December 2011.

Issue Price has the meaning given in clause 2.2(b).

Issuer means Australian Foundation Investment Company Limited (ABN 56 004 147 120).

Issuer's Group means the Issuer and any company, trust or other entity the financial results of which are consolidated into the Issuer's consolidated financial statements as required under Chapter 2M of the Corporations Act.

Maturity Date means 28 February 2017.

Meeting Provision has the meaning given to that term in the Trust Deed.

Ordinary Share means an ordinary fully paid share in the capital of the Issuer.

Realisation Date means:

- (a) in relation to AFIC Notes to be Converted or Repaid following the giving of an Exit Notice or a Realisation Notice (as the case may be):
 - (i) in the case of an Exit Notice under clause 5.1, the next Interest Payment Date which is at least 15 days after receipt of the Exit Notice or such earlier Interest Payment Date agreed to by the Issuer and the Holder;
 - (ii) subject to paragraph (iii), in the case of an Exit Notice under clause 5.3, 5 Business Days following the receipt of the relevant Exit Notice;
 - (iii) in the case of an Exit Notice given under clause 5.3 in relation to a Change of Control Event that is a scheme of arrangement, the Realisation Date is the Business Day prior to the record date for the receipt of consideration under the scheme; or
 - (iv) in the case of a Realisation Notice under clause 6.2, 25 Business Days after the date of that Realisation Notice;
- (b) in relation to AFIC Notes to be Repaid on the Maturity Date, the Maturity Date; and
- (c) if the Trustee gives a notice under clause 10.2(a), the date specified in that notice as the Realisation Date.

Realisation Notice means a notice given by the Issuer to a Holder to Repay AFIC Notes under clause 6.2.

Record Date means, in relation to any payment to be made under or in respect of AFIC Notes:

- (a) 7.00pm (Melbourne time) on the date which is eight calendar days before the due date for payment; or
- (b) such other date as may be required by ASX.

Register has the meaning given to that term in the Trust Deed.

Relevant Indebtedness means any present or future indebtedness of AFIC in the form of, or represented by, bonds, notes, other debentures, or other similar debt securities.

Repayment means the repayment of AFIC Notes in accordance with clause 7. Repaid and Repay have corresponding meanings.

Repayment Amount means, in relation to an AFIC Note, an amount equal to the Face Value.

Security Interest means any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind and includes:

- (a) any right of or arrangement with any creditors to have a claim satisfied in priority to other creditors with or from the proceeds of any asset; and
- (b) retention of title (other than in the ordinary course of day-to-day trading) and a deposit of money by way of security.

Shareholder means a holder of an Ordinary Share.

Special Resolution has the meaning given to that term in the Trust Deed.

Tangible Net Worth means, at any time, the sum of:

- (a) the amount paid up in respect of issued shares but excluding redeemable preference shares;
 - (b) the amount of retained earnings;
 - (c) the amount of share premium reserve and other reserves;
 - (d) the amount of Shareholders' subordinated loans;
- less the sum of:
- (e) the amount of any profit and loss appropriation deficit; and
 - (f) the amount of intangible assets.

Tax means any tax, levy, impost, deduction, charge, rate, duty, compulsory loan or withholding which is levied or imposed by a Governmental Agency, and any related interest, penalty, charge, fee or other amount. It includes GST.

Tax Act means:

- (a) the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as the case may be, as amended, and a reference to any section of the Income Tax Assessment Act 1936 (Cth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cth); and

- (b) any other statute setting the rate of income tax payable and any regulation promulgated thereunder.

Terms means these terms of issue for AFIC Notes.

Total Tangible Assets means, at any time, the Issuer's total assets less its intangible assets.

Trust Deed means the AFIC Note Trust Deed dated on or around 14 November 2011 between the Issuer and the Trustee.

Trust means the trust established under the Trust Deed.

Trustee means the person from time to time acting as Trustee of the trusts constituted by the Trust Deed in its capacity as such, initially being Australian Executor Trustees Ltd (ABN 84 007 869 794) in its capacity as Trustee of the Trust.

VWAP means the average of the daily volume weighted average sale prices of Ordinary Shares sold on ASX during the period specified in these Terms on which Ordinary Shares were trading on ASX, excluding any transaction defined in the ASX Operating Rules as 'special', crossings prior to the commencement of normal trading, crossings during the after hours adjust phase and any overseas trades or exchange traded option exercises, subject to the following adjustments:

- (a) where, on some or all of the Business Days in the relevant period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement which is not extended to the Holder, and the AFIC Notes will convert into Ordinary Shares after the date those Ordinary Shares no longer carry that entitlement, then the VWAP on the Business Days on which those shares have been quoted cum dividend, or cum any other distribution or entitlement shall be reduced by an amount (Cum Value) equal to:
 - (i) in the case of a dividend or other distribution, the amount of that dividend or distribution. No value is included for any franking credits;
 - (ii) in the case of an entitlement which is traded on ASX on any of those Business Days, the volume weighted average price of all such entitlements sold on ASX during the relevant period on the Business Days on which those entitlements were traded; or
 - (iii) in the case of an entitlement not traded on ASX during the relevant period, the value of the entitlement as reasonably determined by the Directors; and
- (b) where, on some or all of the Business Days in the relevant period, Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement, and AFIC Notes will convert into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend, ex distribution or ex entitlement shall be increased by the Cum Value.

Winding Up means in respect of a person the appointment of a liquidator or provisional liquidator of that person (and where the appointment is made by a court, by a court of competent jurisdiction in Australia).

SECTION 8: GLOSSARY

The following is a glossary of the terms used in the Prospectus. Please note that where defined terms are used exclusively in the Terms, their definitions are not included in the Glossary, however to the extent these terms have been used in the remainder of this Prospectus they have been defined in the Glossary.

\$ or dollars Australian dollars.

AFIC Notes the unsecured redeemable convertible notes offered by the Issuer under this Prospectus.

Allocation the number of AFIC Notes allocated to a Successful Applicant under the Offer.

Applicant a person who submits an Application.

Application an Application made to acquire AFIC Notes under this Prospectus.

Application Form the Application Form referred to in, and accompanied by a copy of, this Prospectus.

Application Monies the monies submitted by Applicants in respect of their Applications.

ASIC the Australian Securities & Investments Commission.

ASX Settlement Operating Rules the ASX Settlement Operating Rules issued by ASX Settlement Pty Ltd (ABN 49 008 504 532).

ASX ASX Limited (ABN 98 008 624 691).

Board the board of directors.

Broker Firm Applicant a person who submits an Application under the Broker Firm Offer.

Broker Firm Offer the Offer of AFIC Notes under this Prospectus to Australian residents of Brokers who have received a firm Allocation of AFIC Notes as described in section 1.6.

Business Day means a trading day as defined in the ASX Listing Rules.

Closing Date the date by which Applications must be lodged for the Offer, being 12 December 2011, unless the Issuer and the Lead Manager agree to vary this date.

Co-managers E.L. & C. Baillieu Stockbroking Limited (ABN 74 006 519 393), Macquarie Equities Limited (ABN 41 002 574 923) and RBS Morgans Limited (ABN 49 010 669 726).

Constitution the Constitution of the Issuer.

Corporations Act the Corporations Act 2001 (Cth).

EBIT Net operating profit before interest and tax.

Holder a registered Holder of AFIC Notes.

Issuer or AFIC or the Company Australian Foundation Investment Company Limited (ABN 56 004 147 120).

Lead Manager Evans and Partners Pty Ltd (ABN 85 125 338 785).

Listing Rules the official Listing Rules of ASX.

Maturity Date the AFIC Notes Maturity Date, being 28 February 2017.

Note Trust Deed the Note Trust Deed dated 14 November 2011 between the Issuer and the Trustee described in section 6.2 of this Prospectus.

NZX NZX Limited (New Zealand company number 1266120) or the securities market operated by it, as the context requires.

Offer the Offer under this Prospectus of AFIC Notes, comprising the Shareholder Priority Offer and the Broker Firm Offer.

Ordinary Shares fully paid Ordinary Shares in the capital of the Issuer.

Participating Broker any participating organisation of ASX or NZX selected by the Issuer in consultation with the Lead Manager to participate in the Broker Firm Offer.

Prospectus this Prospectus dated 14 November 2011.

Related Body Corporate has the meaning given in Section 50 of the Corporations Act.

Shareholder a registered Holder of Ordinary Shares.

Shareholder Priority Offer an invitation for Australian or New Zealand resident Shareholders to apply for AFIC Notes under this Prospectus as described in section 1.4.

Successful Applicant an Applicant who is allocated AFIC Notes under the Offer.

Syndicate Broker any of the Lead Manager, Co-managers or Participating Brokers.

SECTION 8: GLOSSARY CONTINUED

Tangible Net Worth has the meaning given in the Terms of Issue.

Terms or Terms of Issue the terms of issue of the AFIC Notes as detailed in section 7.

Timetable the key dates for the Offer set out on page 4.

Total Tangible Assets has the meaning given in the Terms of Issue.

Trustee Australian Executor Trustees Ltd ABN 84 007 869 794.

US or United States United States of America, its territories and provinces, any state of the United States of America and the District of Columbia.

US Person has the meaning given to it in Rule 902(k) under Regulation S of the US Securities Act.

US Securities Act United States Securities Act of 1933.

VWAP has the meaning given in the Terms of Issue.

SECTION 9: CORPORATE DIRECTORY

Directors

Mr Bruce Teele (Chairman)
Mr Donald Argus AC (Non-Executive Director)
Mr Ross Barker (Managing Director)
Mr Terrence Campbell AO (Deputy Chairman)
Mr John Paterson (Non-Executive Director)
Mr Fergus Ryan (Non-Executive Director)
Mrs Catherine Walter AM (Non-Executive Director)
Mr Peter Williams (Non-Executive Director)

Secretaries

Mr Simon Pordage
Mr Andrew Porter

Macquarie Equities Limited
1 Shelley Street
Sydney New South Wales 2000
Telephone 02 8232 3434
Facsimile 02 8232 4055

RBS Morgans Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane Queensland 4000
Telephone 07 3334 4888
Facsimile 07 3831 9946

Registered Office and Business Address

Level 21, 101 Collins Street
Melbourne Victoria 3000
Telephone 03 9650 9911
Facsimile 03 9650 9100

Lead Manager

Evans and Partners Pty Ltd
32 Jolimont Terrace
East Melbourne Victoria 3002
Telephone 03 9631 9802
Facsimile 03 8677 1732

Australian Legal Advisers

Allens Arthur Robinson
530 Collins Street
Melbourne Victoria 3000
Telephone 03 9614 1011
Facsimile 03 9614 4661

Trustee

Australian Executor Trustees Limited
Level 22, 207 Kent Street
Sydney New South Wales 2000

Auditors

PricewaterhouseCoopers
Freshwater Place, 2 Southbank Boulevard
Southbank Victoria 3006
Telephone 03 8603 1000
Facsimile 03 8603 1999

Co-managers

E.L. & C. Baillieu Stockbroking Limited
Level 26, 360 Collins Street
Melbourne Victoria 3000
Telephone 03 9602 9222
Facsimile 03 9602 2350

