THE FRANKED INCOME FUND

OWNERSHIP - SIMPLIFICATION PLAN -

Explanatory Memorandum

This document is important.

If you do not understand it or are in any doubt about the action to be taken, you should consult your stockbroker, accountant, investment adviser or other professional adviser immediately.

The Franked Income Fund
ARSN 088 409 367

Issued by Gresham Partners Management Limited
ABN 33 003 344 312
Responsible Entity

This is the Explanatory Memorandum to the Notice of Meeting of Members of The Franked Income Fund and the Notice of Meeting of Optionholders of The Franked Income Fund both dated 2 March 2001

Key issues for FIF members

What you will receive

Approximately one new Wesfarmers share for every 2.4851 units held

Approximately one new Wesfarmers share for every 10.5614 options held

Your investment will be worth more

Based on the closing share market prices as at 12 February 2001, unitholders would benefit by a 20.8 per cent increase in the value of their investment and optionholders by a 79.6 per cent increase.

Direct interest in Wesfarmers

Unitholders and optionholders will become shareholders in Wesfarmers and thereby participate directly in the capital growth and returns generated by Wesfarmers.

Simplified structure for Wesfarmers

On full implementation, Wesfarmers will have an ownership structure more typical of the majority of Australian listed companies. This simplified structure is likely to make Wesfarmers a more attractive investment prospect.

Taxation impact

Units exchanged for Wesfarmers shares will not incur stamp duty or brokerage costs and capital gains tax rollover relief will be available to unitholders. Whilst optionholders will not incur any stamp duty or brokerage, tax rollover relief is not available to optionholders.

Income effects

The proposal will result in the income enjoyed by FIF unitholders being essentially preserved as a result of the exchange of units into Wesfarmers shares. Whilst there is not anticipated to be any material increase or decrease in the income received, the yield on the Wesfarmers shares will be less than the historical yield on FIF units due to the increase in capital value.

FIF's interim distribution

Unitholders will be entitled to receive the fully franked special cash distribution in relation to the 2000/2001 financial year that is expected to be approximately 9.95 cents per unit and proposed to be paid on 4 May 2001.

Key conditions of the simplification proposal

If any of the resolutions at the FIF members' meeting are not passed, the FIF Proposal will not proceed. If the resolution at the FIF optionholders' meeting is not passed, the acquisition of units may proceed but the acquisition of options will not proceed under the FIF Proposal.

Full implementation of the simplification proposal is subject to a number of other conditions including approval by Wesfarmers shareholders and Westralian Farmers Co-operative Limited stockholders at meetings scheduled for 6 April 2001 as well as a number of other conditions.

The above is a very brief summary of the main features of the FIF Proposal. Unitholders and optionholders are urged to read this Explanatory Memorandum in full. The Explanatory Memorandum explains that if some aspects of the Wesfarmers shareholding simplification proposal are not implemented, some of the anticipated benefits may not be achieved.

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Taxation Report

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1 March 2001

The Directors,
Gresham Partners Management Limited,
Level 6,
175 Macquarie Street,
SYDNEY. N.S.W. 2000

Dear Directors,

This report has been prepared for inclusion in an Explanatory Memorandum to be dated on or about 2 March 2001. Words and terms in this report have the same meaning as in the Explanatory Memorandum, unless the context requires otherwise.

Taxation Report

The following is a general description of the Australian income tax consequences for the Franked Income Fund ("FIF") Unitholders and Optionholders of the transactions occurring in connection with the proposed acquisition of FIF by WSML and then WSML by Wesfarmers. It is not intended to be an authoritative or complete analysis of the taxation laws of Australia applying to the specific circumstances of any particular FIF Unitholder or Optionholder. In particular, it is limited to the position of taxpayers that hold their FIF Units and Options on capital account. It does not consider the Australian tax implications of an exercise of FIF options.

Each FIF Unitholder and Optionholder is advised to consult his or her own professional adviser regarding the Australian tax consequences of the transactions in light their own particular circumstances.

1 Executive summary

For Australian resident Unitholders:

(a) The exchange of FIF Units for Shares in WSML, in accordance with the terms of the amended FIF Constitution (which authorises the transfer of all Units to WSML) will give rise to a disposal of FIF Units for capital gains tax ("CGT") purposes. If the rollover relief conditions are met, optional CGT rollover relief is available to FIF Unitholders as described below. The exchange of the Units for the Shares has been structured to satisfy all of the rollover relief conditions, so that Unitholders can choose rollover relief if they wish.

(b) The exchange of WSML Shares for Wesfarmers Shares in accordance with the terms of the WSML constitution will give rise to a disposal of WSML Shares for CGT purposes. If the rollover relief conditions are satisfied, optional CGT scrip for scrip rollover relief is available where a capital gain would otherwise arise in connection with the disposal. The exchange has been structured to satisfy all of the rollover relief conditions, so that the FIF Unitholders can choose rollover relief if they wish.

(c) There are no material adverse tax consequences to WSML or Wesfarmers as a consequence of the proposed transactions.

(d) In order for both rollovers to apply, the FIF Unitholders must choose to obtain them. The choice must be made on or before the date of lodgment of the FIF Unitholder's income tax return for the year in which the relevant disposal occurs. The way in which the FIF Unitholder's income tax return is prepared is sufficient evidence of the making of the choice.

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2 Implications of Exchange of Units in FIF for Shares in WSML

2.1 Australian resident Unitholders

If the FIF Units are transferred to the Custodian (to be held on behalf of WSML), in exchange for WSML Shares then this transfer of the FIF Units to the Custodian will give rise to a disposal of the Units for CGT purposes. The Unitholders may choose rollover relief if they wish, as the exchange of the Units for the Shares has been structured to satisfy all of the rollover relief conditions.

(a) What is the effect of Rollover Relief

Where rollover relief applies in relation to the disposal, any capital gain or loss which would otherwise be realised on the disposal of the FIF Units is disregarded. Rather, Unitholders will be taken to have a proportionate cost base in the WSML Shares acquired, determined by reference to the cost base of the FIF Units given up (including indexation, where applicable). In this regard, a Unitholder's cost base in FIF Units would generally include the amount paid by the Unitholder to acquire those Units, plus any incidental costs of acquisition (for example, brokerage fees and stamp duty) less any non-assessable distributions received.

(b) Unitholders can choose to obtain Rollover Relief

In order for rollover relief to apply, a Unitholder must choose to obtain it. The choice must be made on or before the date of lodgment of the Unitholder's income tax return for the year in which the disposal occurs. The way in which the Unitholder's income tax return is prepared is sufficient evidence of the making of the choice. That is, if no capital gain or capital loss is disclosed in the income tax return, that is sufficient evidence of a choice having been made.

(c) If you do not choose Rollover Relief

In the event that a Unitholder does not choose to claim rollover relief in relation to the disposal of FIF Units, the Unitholder will be required to determine the CGT implications of the disposal. The manner in which a capital gain or loss is calculated will depend upon the date on which the Unitholder acquired the FIF Units, the length of time the FIF Units were held and the taxpayer profile of the Unitholder.

(1) For Unitholders that acquired FIF Units at or before 11.45 am (EST) on 21 September 1999

Such Unitholders will realise a capital gain or loss determined by reference to the difference between the capital proceeds received in respect of the disposal and the cost base of the FIF Units. The capital proceeds received in respect of the disposal of FIF Units will be equal to the market value of the WSML Shares received, calculated at the time that the exchange is effected. As noted above, a Unitholder's cost base in FIF Units would generally include the amount paid to acquire those Units plus any incidental costs of acquisition less any non-assessable distributions received by the Unitholder.

A capital gain will arise to the Unitholder if the capital proceeds received in respect of the disposal of the FIF Units exceed the cost base of those Units. In calculating a capital gain, such a Unitholder may choose to index the cost base of their FIF Units for inflation up to 30 September 1999. Alternatively, an individual, trust or complying superannuation fund may instead apply the discount capital gain method:

- *for an individual or trust* – to include in assessable income, one-half of the realised nominal gain, being the difference between the capital proceeds and the cost base of the FIF Units without indexation for inflation, arising as a result of the disposal of the FIF Units;
- *for a complying superannuation fund* – to include in assessable income, two-thirds of the realised nominal gain, being the difference between the capital proceeds and the cost base of the FIF Units without indexation for inflation, arising as a result of the disposal of the FIF Units.

Where a Unitholder chooses the discount capital gain method, any available capital losses of the Unitholder will be applied to reduce the realised nominal gain before multiplying the resulting net amount by one-half or two-thirds (as applicable) to calculate the discount capital gain. Alternatively, if the Unitholder chooses the indexation option, available capital losses are applied after calculating the capital gain using the indexed cost base.

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The "choice" to apply the indexation or discount capital gain method must be made by the Unitholder on or before the day of lodgment of the Unitholder's income tax return for the year in which the disposal occurs. The way in which the Unitholder's income tax return is prepared is sufficient evidence of the making of the choice.

A capital loss will be realised by the Unitholder if the capital proceeds received are less than the reduced cost base of the FIF Units. A capital loss may be used to offset capital gains derived in the same or subsequent years of income. A capital loss, however, cannot be offset against ordinary income, nor carried back to offset net capital gains arising in earlier income years.

(2) **For Unitholders that acquired FIF Units after 11.45 am (EST) on 21 September 1999**

Such Unitholders will not be entitled to indexation of cost base when calculating any capital gain on disposal.

Where such a Unitholder is an individual, trust or complying superannuation fund that has held FIF Units for twelve months or longer at the time of disposal, the discount capital gain method described above will automatically apply to them in calculating any capital gain on disposal. As noted above, when applying the discount capital gain method, any available capital losses of the Unitholder will be applied to reduce the realised nominal gain before multiplying the resulting net amount by one-half or two-thirds (as applicable) to calculate the discount capital gain.

Where the FIF Units have been held for less than twelve months and/or are owned by another category of Unitholder (for example, a company), the discount capital gain method is not available. In such circumstances, the difference between the capital proceeds and the unindexed cost base will give rise to a capital gain or loss, as appropriate.

2.2 Non-resident Unitholders

For a FIF Unitholder who is not a resident of Australia for Australian tax purposes and who holds FIF Units on capital account, the disposal of FIF Units pursuant to the terms of the amended FIF constitution will only result in Australian CGT implications if that Unitholder (together with associates) at any time during the five years immediately preceding the disposal, owned 10% or more of the issued Units of FIF. In such circumstances, the non-resident Unitholder would be eligible to claim the rollover relief referred to at 2.1 above.

3 Implications of Sale of FIF Options in return for Shares in Wesfarmers

3.1 Australian Resident Optionholders

If the FIF Options are transferred to Wesfarmers in exchange for Wesfarmers Shares then this transfer of the Options to Wesfarmers will give rise to a disposal of the Options for CGT purposes. No rollover relief will be available in respect of such disposal.

The manner in which a capital gain or loss is calculated will depend upon the date on which the Optionholder acquired their FIF Options, the length of time they have held their FIF Options and the taxpayer profile of the Optionholder. The CGT consequences will be generally the same as described at 2.1(c) above, although the relevant capital proceeds to be taken into account will be the market value of the Wesfarmers Shares received in respect of the disposal.

3.2 Non-resident Optionholders

For a FIF Optionholder who is not a resident of Australia for Australian tax purposes and who holds FIF Options on capital account, the disposal of the FIF Options pursuant to the terms of the amended constitution will only result in Australian CGT implications if that Optionholder (together with associates) at any time during the five years immediately preceding the disposal, owned 10% or more of the issued Units of FIF. In such circumstances, the CGT implications for the non-resident Optionholder would be as outlined at 2.2 above.

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4 Implications of Exchange of Shares in WSML for Shares in Wesfarmers

4.1 Australian Resident WSML Shareholders

The exchange of WSML Shares for Wesfarmers Shares in accordance with the terms of the WSML constitution will give rise to a disposal of WSML Shares for CGT purposes. If the rollover relief conditions are satisfied, optional CGT scrip for scrip rollover relief is available in respect of the Wesfarmers Shares received, where a capital gain would otherwise arise in connection with the disposal. The exchange has been structured to satisfy all of the rollover relief conditions, so that the FIF Unitholders can choose rollover relief, if they wish.

(a) What is the effect of Scrip for Scrip Rollover Relief

A WSML Shareholder that would otherwise realise a capital gain in respect of the disposal of their WSML Shares pursuant to the compulsory exchange, may choose to claim scrip for scrip CGT rollover relief in respect of that disposal.

The effect of a Shareholder choosing to claim rollover relief will be that the capital gain that would otherwise arise to the Shareholder will be disregarded. Rather, the Shareholder will be taken to have a proportionate cost base in the Wesfarmers Shares acquired determined by reference to their cost base in the WSML Shares (refer 2.1(a) and 2.1(c) above, as applicable).

In order for rollover relief to apply, a Shareholder must choose to obtain it. The choice must be made on or before the date of lodgment of the Shareholder's income tax return for the year in which the disposal occurs. The way in which the Shareholder's income tax return is prepared is sufficient evidence of the making of the choice.

In ascertaining whether a capital gain will arise in connection with the disposal and so whether scrip for scrip rollover relief is available, it will be relevant whether or not rollover relief was claimed in relation to the exchange of Units in FIF for Shares in WSML, as this will determine the cost base of the Shareholder in the WSML Shares.

(b) Where rollover relief was not claimed in relation to the disposal of FIF Units

Where rollover relief was not claimed in relation to the disposal of FIF Units, the Shareholder will be taken to have acquired the WSML Shares at the time they were issued. The Shareholder will have a proportionate cost base in the WSML Shares determined by reference to the consideration given to acquire those Shares, namely, the market value of the FIF Units given up, determined at the time of acquisition. No indexation will be available in relation to the cost base of the WSML Shares in such circumstances.

As the exchange of WSML Shares for Wesfarmers Shares will occur within twelve months of the acquisition of WSML Shares, the discount capital gain method will not be available. Accordingly, the difference between the capital proceeds (being the market value of the Wesfarmers Shares determined at the time of disposal) and the unindexed cost base of the WSML Shares will give rise to a capital gain or loss, as appropriate.

However, in the event that a capital gain did arise on the disposal of the WSML Shares, the Shareholder would be eligible to choose scrip for scrip rollover relief in relation to the disposal.

(c) Where rollover relief was claimed in relation to the disposal of FIF Units

Where rollover relief was claimed in relation to the disposal of FIF Units, each WSML Share would be attributed a proportionate cost base determined by reference to the original cost base of the Shareholder in the FIF Units given to acquire the WSML Shares (including indexation, where applicable). The Shareholder would be taken to have acquired the WSML Shares at the time the FIF Units were acquired by the Unitholder. This will be relevant for the purposes of determining the Shareholder's eligibility for indexation and the discount capital gain method in relation to the disposal of WSML Shares. Otherwise, the CGT consequences will be generally the same as described at 2.1 above, although the relevant capital proceeds to be taken into account will be the market value of the Wesfarmers Shares received, calculated at the time the exchange is effected.

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4.2 Non-resident WSML Shareholders

For a WSML Shareholder who is not a resident of Australia for Australian tax purposes and who holds WSML Shares on capital account, the disposal of the WSML Shares pursuant to the exchange will only result in Australian CGT implications if that Shareholder (together with any associates), owned 10% or more of the issued Shares in WSML. In such circumstances, the non-resident Shareholder would be eligible to claim the scrip for scrip rollover relief referred to at 4.1 above.

5 Implications of Holding Wesfarmers Shares for Australian resident Shareholders

5.1 Implications for Australian resident individual Shareholders

Dividends received by Australian resident individual Shareholders of Wesfarmers would generally be required to be included in the assessable income of such Shareholders.

In the event that a franked dividend was paid by Wesfarmers, Australian resident individual Shareholders would generally be entitled to a franking rebate in respect of such dividends. In this regard, resident individual Shareholders should be aware of the holding period rules which require Shares to be held sufficiently at risk for a minimum period of 45 days (not including the date of acquisition and the date of disposal) in order to be eligible for the benefit of the franking rebate on dividends. Individual Shareholders who receive less than $5,000 of franking rebates from all dividends and distributions in an income year will be exempt from the holding period rules.

A franked dividend is one which is paid out of the profits in respect of which Australian company tax has been paid. The rate of Australian company tax currently applicable to taxable profits is 34% (which will decrease to 30% for subsequent income years). The tax paid determines the available imputation credit attached to the dividend, which in turn determines the franking rebate.

The extent to which a dividend can be franked depends upon the amount of franking credits in the company's franking account resulting from the payment of company tax. A fully franked dividend is one in respect of which the whole amount of the dividend is franked.

The amount of the imputation credit attaching to a dividend will be shown separately on the dividend statement provided by Wesfarmers to each Shareholder. Shareholders should include as assessable income in their tax returns an amount equal to the dividend they receive plus the imputation credit. A rebate equal to the imputation credit is then generally available for offset against tax on the dividend and on other income.

Generally speaking, Shareholders whose marginal tax rate is equal to the company rate or less, will pay no further income tax on the fully franked dividend. Any excess imputation credits are refundable to resident individual Shareholders. No franking rebate is available in respect of unfranked dividends.

5.2 Implications for Australian resident superannuation fund Shareholders

Superannuation fund Shareholders will be entitled to the franking credits, to the extent that the dividends are franked and they can satisfy the holding period requirement mentioned above. In relation to the holding period requirement, the superannuation fund Shareholders can elect for a formula based method whereby the franking credits ceiling applies, based on the expected franking credits of all the shares (including any Wesfarmers Shares) owned by them. Any franking credits remaining after offsetting the tax payable is refundable to complying superannuation entities.

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5.3 Implications for Australian resident corporate Shareholders

Under present law, corporate Shareholders will generally be entitled to the inter-corporate dividend rebate to the extent that dividends are franked. Corporate Shareholders will generally be entitled to credit their franking account for franked dividends received. It is proposed that from 1 July 2001, Corporate Shareholders be taxed in a manner similar to individuals as described in 5.1 above.

In order to be eligible for the inter-corporate dividend rebate, the Corporate Shareholders have to have held the Shares, sufficiently at risk for a minimum period of 45 days (not including the date of acquisition and the date of disposal).

5.4 Subsequent disposal of Wesfarmers Shares by Australian resident Shareholders

For a Shareholder who holds Wesfarmers Shares on capital account, a subsequent disposal of those Shares will generally result in Australian CGT implications. These will differ depending upon whether rollover relief was claimed in relation to the disposal of the FIF Units and the WSML Shares as these choices will affect the cost base of the Shareholder in the Wesfarmers Shares and the deemed acquisition time of such shares.

(a) *Where scrip for scrip rollover relief was not claimed in relation to the disposal of WSML Shares*

Where scrip for scrip rollover relief was not claimed in relation to the disposal of WSML Shares, the Shareholder will be taken to have a proportionate cost base in each Wesfarmers Share determined by reference to the consideration given to acquire that Share, namely, the market value of the WSML Shares given up, determined at the time of acquisition. No indexation will be available in relation to the cost base of the Wesfarmers Shares in such circumstances.

Where such a Shareholder is an individual, trust or complying superannuation fund that has held Wesfarmers Shares for twelve months or longer at the time of the subsequent disposal, the discount capital gain method will apply to them in calculating any capital gain on disposal. As noted above, when applying the discount capital gain method, any available capital losses of the Shareholder will be applied to reduce the realised nominal gain before multiplying the resulting net amount by one-half or two-thirds (as applicable) to calculate the discount capital gain.

Where the Wesfarmers Shares have been held for less than twelve months and/or are owned by another category of Shareholder (for example, a company), the discount capital gain method is not available. In such circumstances, the difference between the capital proceeds and the unindexed cost base will give rise to a capital gain or loss, as appropriate.

(b) *Where scrip for scrip rollover relief was claimed in relation to the disposal of WSML Shares*

Where scrip for scrip rollover relief was claimed in relation to the disposal of WSML Shares under the exchange, each Wesfarmers Share would be attributed a proportionate cost base determined by reference to the original cost base of the Shareholder in the WSML Shares given to acquire the Wesfarmers Shares (including indexation, where applicable).

A Shareholder will be taken to have acquired the Wesfarmers Shares at the time they acquired the WSML Shares (refer 4.1(b) and 4.1(c), as applicable). This will be relevant for the purposes of determining the Shareholder's eligibility for indexation and the discount capital gain method upon a subsequent disposal of the Wesfarmers Shares. Otherwise, the CGT consequences will be generally the same as described at 2.1 above, although the relevant capital proceeds to be taken into account will be those capital proceeds received in respect of the subsequent disposal, calculated at the time that disposal occurs.

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5.5 Non-resident Wesfarmers Shareholders

(a) *Implications of holding Wesfarmers Shares*

Any dividends received by a Wesfarmers Shareholder who is not a resident of Australia and who does not have a permanent establishment in Australia for Australian tax purposes, will not be subject to Australian tax if the dividend is fully franked. To the extent that the dividends are unfranked, dividend withholding tax at a rate of 30% will be deducted at the time of payment. If the Shareholder is resident in a country with which Australia has concluded a comprehensive Double Tax Agreement, the rate of withholding tax is reduced to 15%.

(b) *Subsequent disposal of Wesfarmers Shares*

For a Wesfarmers Shareholder who is not a resident of Australia for Australian tax purposes and who holds Wesfarmers Shares on capital account, the disposal of Wesfarmers Shares would generally only result in Australian CGT implications if that Shareholder (together with associates) at any time during the five years immediately preceding the disposal, owned 10% or more of the issued capital of Wesfarmers or WSML in the case of a non-resident who chose rollover relief for the disposal of the WSML shares.

Also, if the 10% or more threshold has been exceeded, any selling costs incurred in disposing of the parcel of Shares under the Sale Facility is included in the cost base of the Shares disposed of, and the capital proceeds (net of selling costs) received, is grossed up for the selling costs deducted.

6 Implications for Wesfarmers and WSML

No material adverse tax consequences should arise for Wesfarmers or WSML as a consequence of the above transactions.

As a consequence of the acquisition of the Shares in WSML pursuant to the exchange, Wesfarmers will be regarded as having a cost base in the WSML Shares it acquires equal to the market value of the Wesfarmers Shares issued in consideration for the acquisition.

As a consequence of the acquisition of the FIF Units pursuant to the terms of the amended FIF constitution, WSML will be taken to have a cost base in the FIF Units it acquires broadly equal to the aggregate cost bases of FIF's assets, less any liabilities in respect of those assets.

Following the acquisition of all of the interests in FIF and WFCL by Wesfarmers, Wesfarmers will be required to buy-back and cancel all of the Wesfarmers Shares held by FIF, WFCLI, WFCL and DPCL. Wesfarmers has sought and obtained a favourable advance opinion from the Australian Taxation Office which confirms that Wesfarmers should not suffer any adverse tax consequences as a result of the proposed buy-back of the Wesfarmers Shares.

Yours faithfully

GREENWOODS & FREEHILLS PTY LIMITED

per:

MARK FERRIER
Director