

The Gold Coast Bulletin

\$1.00 *Inclusive of GST (By air extra)

Wednesday, June 25, 2008

www.goldcoast.com.au

Billions of dollars of debt

GOLD Coast-based Octaviar is on the ropes with debts of more than \$1 billion.

The Premium Income Fund, which has \$770 million in investor funds, has launched new action against the former financial services heavyweight, seeking repayment of a \$147.5 million loan.

The fund has called in a top Sydney silk to challenge the company after determining the loans were now worthless.

It is one of a number of upgraded claims against Octaviar since Queensland's Public Trustee lodged a winding-up action nearly three weeks ago.

There is widespread speculation that Octaviar, formerly known as MFS, could buckle under the pressure, with assets falling well short of the money it owes.

Page 2

Liquidation looms as public trustee seeks wind-up

Debts of \$1 billion may sink Octaviar

by Nick Nichols
business editor

EMBATTLED financial services group Octaviar's days appear to be numbered after a raft of new claims lifted the debt it owes creditors to more than \$1 billion.

With only \$170 million in the bank and remaining assets of little more than \$400 million, the Gold Coast company appears destined to be liquidated after conceding it may have to immediately pay Challenger Financial Services \$100 million in unlisted bonds not due to mature until 2011.

The trigger for the rush of claims has been winding-up action by the Public Trustee of Queensland earlier this month against Octaviar and a number of its subsidiaries over their failure to repay \$351 million in listed notes.

The action is set to be heard in the Supreme Court of Queensland on September 9 and 10.

But before that, on July 21, Octaviar, formerly known as MFS, has to front up to the NSW Supreme Court to defend Challenger's claim.

The company yesterday admitted it would have to roll over in this case.

Until now, Octaviar has consistently denied its sale of 65 per cent of Stella to private

equity group CVC Asia Pacific constituted a default trigger for the repayment of the bonds.

But Octaviar company secretary David Anderson, in a statement to the Australian Stock Exchange yesterday, said the Public Trustee's actions 'have triggered an event of default in relation to the unlisted bonds and we have agreed with the bondholders that the bondholders now have the ability to make the bonds due and payable'.

The latest blow has come on the heels of Octaviar's former flagship investment vehicle, the Premium Income Fund (PIF), boosting its claim against the company by \$147.5 million.

The claim has been brought by Jenny Hutson's Wellington Capital, which took control of the fund in May. It is on top of an original demand for \$50 million in support pledged to the fund by Octaviar.

Ms Hutson yesterday said the latest claim involved loans forwarded from PIF to the then MFS late last year.

"Our determination now is that there is zero value in those loans," said Ms Hutson. "As a consequence there is a \$147.5 million loss to be worn by PIF."

Ms Hutson said those loans were 'inappropriate' from PIF's perspective and the fund had retained a top Sydney barrister for PIF investors.

How the numbers stack up

WHAT IT OWES:

Challenger
\$100m



Investments, Mortgages, Private Loans

Public Trustee of Queensland
\$351 million



Australian Tax Office
\$56.5m



Premium Income Fund \$197.5m

OPI Pacific Finance
\$270m



National Australia Bank
\$40m



WHAT IT OWNS:

\$400m

Circle on Cavill commercial component

Q1 Observation Deck

35 per cent of Stella Group

60 per cent of Tribeca

70 per cent of Causeway

plus

Cash \$170m

Total
\$570m



Ms Hutson said it was the 'right time for all and any claims (against Octaviar) to be properly in the ring'.

Ms Hutson said Octaviar indicated it would treat creditors 'in a fair fashion'; she remained opposed to liquidation.

Octaviar yesterday said it continued to talk to its creditors to come to some agreement over payment of its debts.

Among the claims it faces is

\$56.5 million from the Australian Taxation Office, up from \$52.5 million listed in its December 31 accounts. This was due to added interest.

Octaviar's New Zealand subsidiary, OPI Pacific Finance, last week lodged a damages claim seeking \$270 million from Octaviar.

The move comes despite a three-year moratorium on the debt struck by Octaviar only

last month. National Australia Bank is also owed \$40 million through an Octaviar guarantee for funds forwarded to subsidiary Living and Leisure Australia (LLA).

That guarantee is planned to be released once LLA's recapitalisation plan with James Packer's Arctic Capital is completed.

Octaviar chief executive Craig Chapman did not return calls last night.