



# **Annual Report**

Premium Income Fund

ARSN 090 687 577

30 June 2008

**CONTENTS**

**DIRECTORS' REPORT .....2**

**INCOME STATEMENT .....7**

**BALANCE SHEET AS AT 30 JUNE 2008 .....8**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008 .....9**

**NOTES .....10**

**DIRECTORS' DECLARATION .....27**

**INDEPENDENT AUDITORS REPORT .....28**

This financial report covers the Premium Income Fund as an individual entity.

The responsible entity of the Premium Income Fund is Wellington Investment Management Limited ABN 20 101 634 146. The responsible entity's registered office is Level 22, 307 Queen Street, Brisbane, Queensland, 4000.



### DIRECTORS' REPORT

The directors of Wellington Investment Management Limited ('WIML') (a wholly owned subsidiary of Wellington Capital Limited), the responsible entity of the Premium Income Fund, present their report together with the financial report of the Premium Income Fund ('the Fund'), for the year ended 30 June 2008. Prior to 13 June 2008, the responsible entity was known as Octaviar Investment Management Limited. From 13 June 2008, the responsible entity changed its name to Wellington Investment Management Limited following the acquisition of the responsible entity by Wellington Capital Limited.

### Responsible Entity

The responsible entity of the Premium Income Fund is Wellington Investment Management Limited.

### Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

The entity's principal activity for the year was the receipt of unitholders' funds and investment of unitholders' funds in equity, debt instruments, cash and registered mortgages.

The entity did not have any employees during the year.

There were no significant changes in the nature of the entity's activities during the year.

### Directors

The following persons held office as directors of Wellington Investment Management Limited during the year or since the end of the year and up to the date of this report:

Jennifer Hutson	(Appointed 2 May 2008)
Robert Pitt	(Appointed 2 May 2008)
Craig Wallace	(Appointed 2 May 2008)
Guy Hutchings	(Appointed 23 May 2007, resigned 2 May 2008)
Craig White	(Appointed 31 August 2005, resigned 2 May 2008)
Deborah Beale	(Appointed 27 January 2007, resigned 18 February 2008)
John Whateley	(Appointed 27 February 2007, resigned 2 May 2008)
Jack Diamond	(Appointed 27 February 2007, resigned 2 May 2008)
Stuart Price	(Appointed 27 February 2007, resigned 3 September 2007)
Steven Kyling	(Appointed 27 February 2007, resigned 17 September 2007)

The registered office of Wellington Investment Management Limited and the fund is Level 22, 307 Queen Street, Brisbane, Queensland, 4000.

### Review and results of operations

The Premium Income Fund was adversely affected by various circumstances during the year. Foremost amongst these was the withdrawal from the fund of \$200 million of cash and its replacement with loan and investment securities which, in the current directors' opinion, were of little value. The drawing under the fund's finance facilities breached the bank's borrowing covenants and rendered the facility immediately repayable. Failure to meet this repayment, or to come to an acceptable arrangement with the bank, would have caused the fund to be placed into immediate receivership. To avoid this situation, the directors entered into a standstill agreement with the bank but this placed a very onerous repayment schedule on the fund. The standstill agreement was renewed several times during the year and at the date of this report that bank facility has been repaid.

Further, the collapse of Octaviar Limited's financial position, its suspension on the ASX and the appointment of an administrator, has eroded the value of the support agreement under which the results of the fund were supported by a guarantee of up to \$50 million from Octaviar Limited.

In response to these factors, unitholders swamped the fund with redemption requests which the fund was unable to satisfy and accordingly, redemptions and distributions to unitholders were suspended in January 2008.

Since that time, the severe decline in property markets in Australia caused by the credit restrictions imposed by banks in response to the US sub-prime crisis, has caused a substantial reduction in the market value of



## PREMIUM INCOME FUND

the fund's assets. Material uncertainty surrounds the valuation and collectability, in full, of a large proportion of the fund's loan and investment portfolio. The directors, with the assistance of external advisers, have endeavoured to assess the potential value of each of the fund's assets. This process has resulted in a decline of approximately \$367 million in the assessed fair value of the fund's loan and investment portfolio, in the opinion of the directors. However, notwithstanding this assessment of fair value, the directors intend to pursue every available option to maximise the recovery of assets for the fund.

As a result of these factors and the impending unitholder meeting to vote on the fund's future direction, it must be recognised that there is a degree of uncertainty that the fund can continue as a going concern.

However, the directors are confident in obtaining the required unitholder approval to continue and have formed the opinion that the fund can continue as a going concern. The Financial Statements have been prepared on this basis.

### Results

The performance of the Fund, as represented by the results of its operations, were as follows:

	2008 \$000's	2007 \$000's
Net operating profit/(loss) before financing costs attributable to Unitholders	(379,283)	66,907
<b>Distributions</b>		
Distribution paid and payable (\$000's)	40,083	66,907
<b>Distribution (cents per unit)</b>	<b>4.9</b>	<b>8.3</b>

### Unitholders' funds

The Fund issued 115,043,949 units during the financial year (2007: 516,425,538) while 239,988,049 units were redeemed (2007: 341,129,490), resulting in a balance of 755,147,052 units on issue as at 30 June 2008 (2007: 880,091,152).

The Fund had total net assets valued at \$ 335.8 million as at 30 June 2008 (2007: \$886.7 million). The basis for valuation of the Entity's assets is disclosed in Note 2 to the financial statements.

On 29 January 2008 the Fund suspended the redemption of units and the payment of distributions for a period of 180 days. In accordance with the Fund's constitution, this period was extended to 360 days on 10 March 2008.

### Significant changes in state of affairs

The Fund continued to invest primarily in equity, debt instruments and mortgage loans during the year ended 30 June 2008.

The asset allocation of the Fund as at 30 June 2008 was as follows:

Mortgage Loans	70.1%
Managed Investment Schemes	1.4%
Alternative Investments	24.5%
Cash Investments	0.0%
Fixed Interest Investments	4.0%

Due to the reduction in the assessed fair value of the fund's investment portfolio, these asset allocations are outside the target allocation guidelines contained in the Product Disclosure Statement which was issued on 2 July 2007 ('PDS'). The definitions of each of the above asset categories are set out in the PDS.

### Interests of the Responsible Entity




The number of interests in the Fund held by the responsible entity or its associates as at the end of the financial year are disclosed in Note 16 of the financial statements.



**Matters subsequent to the end of the financial year**




Since the end of the financial year, the bank debt, which had been incurred by the previous directors, has been repaid. Accordingly, the threat of receivership from this source has been extinguished. Unitholders will be asked to vote on a resolution on 15 October 2008 to modify the Constitution of the Fund to enable trading of units on the National Stock Exchange and extinguishment of the redemption rights, to appoint Wellington Capital Limited as the Responsible Entity and to authorise a limited unit buyback of up to 37.75 million units at \$0.45 each in the year ending 18 September 2009.

These matters will significantly affect, or may significantly affect:

-  the operations of the Fund in future financial years; or
-  the results of those operations in future financial years; or
-  the state of affairs of the Fund in future financial years.

**Likely developments and expected results of operations**

The future of the fund will be decided by unitholders at an extraordinary general meeting to be held on 15 October 2008. At that meeting, unitholders will be asked to vote on the following resolutions proposed by the responsible entity:

-  that the Constitution of the fund be modified. This will enable units in the fund will be able to be traded on the NSX;
-  that Wellington Capital Limited be appointed as the new responsible entity of the fund; and
-  that the responsible entity be authorised to make a buy-back offer for up to 37.75 million units in the fund at 45 cents per unit by 18 September 2009.

These unitholder resolutions will determine the future direction of the fund and will influence likely developments and the expected results of operations.

**Octaviar Limited**

The Fund has issued legal proceedings against Octaviar Limited, Octaviar Pacific Finance Limited and Octaviar Administration Ltd seeking recovery of \$147.5 million, which it is alleged was improperly withdrawn from the Fund. It is not clear whether or not, that action will be successful and due to the severe financial difficulties presently facing the Octaviar Limited Group the amount of any recovery which may be received cannot be assessed at this time.

**Indemnification and insurance of officers and auditors**

No insurance premiums were paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Wellington Investment Management Limited or the auditors of the Fund. So long as the officers of Wellington Investment Management Limited act in accordance with the Fund's constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

**Responsible Entity's remuneration**

Under the previous remuneration structure, Octaviar Investment Management Limited was entitled to receive, all surplus funds generated by the Fund but only after all current distribution, redemption and expense obligations have been satisfied at the end of each month.

The following fees were paid or payable to Octaviar Investment Management Limited during the financial year:

	2008 \$	2007 \$
Management fees for the year paid directly to the Responsible Entity	6,098,277	16,091,892

Based on the estimated fair value of the fund at year end, the management fee outlined above represented 1.8% of the total of funds under management. No fees were paid or are payable from the Fund since 2 May 2008 when the current directors joined the board.



## **PREMIUM INCOME FUND**

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At the meeting of unitholders to be held on 15 October 2008, investors in the fund will be asked to vote on a modification to the fee structure so that the responsible entity will be paid a management fee of 0.7% per annum on the value of funds under management. This fee will commence after investors have received cash distributions of 3 cents per unit.

### **Environmental regulation**

The operations of the Fund are not subject to any particular or significant environmental law or regulation.

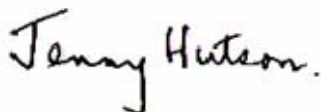
### **Rounding of amounts to the nearest thousand dollars**

The Fund is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### **Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Signed in accordance with a resolution of the Directors of Wellington Investment Management Limited.



Jenny Hutson  
Director



Robert Pitt  
Director

Brisbane

30 September 2008



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## Auditor's Independence Declaration

As lead auditor for the audit of the Premium Income Fund for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the Premium Income Fund.



Timothy J Allman  
Partner  
PricewaterhouseCoopers

Brisbane  
30 September 2008

**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$000's	2007 \$000's
<b>Investment income</b>			
Interest income	3	61,633	62,341
Net realised gain/(loss) on trading securities		2,254	6,904
Net unrealised gain/(loss) on financial instruments designated as at fair value through profit or loss		(281,331)	(3,679)
Impairment of mortgage loans	12	(85,698)	-
Net realised gain/(loss) on financial instruments designated as at fair value through profit or loss		(56,196)	4,058
Investment income	4	6,162	16,905
Loan and other fees received	5	356	65
<b>Total investment income/(loss)</b>		<b>(352,820)</b>	<b>86,594</b>
<b>Expenses</b>			
Responsible entity's fees	16	6,098	16,092
Custodian and registry fees		1,410	1,266
Fees and commission expense		4,470	197
Auditor's remuneration	6	197	45
Finance costs (excluding distributions)		12,650	1,387
Consulting, compliance accounting and legal fees		353	700
Insurance		1,285	-
<b>Total operating expenses</b>		<b>26,463</b>	<b>19,687</b>
<b>Net operating profit/(loss)</b>		<b>(379,283)</b>	<b>66,907</b>
<b>Financing costs attributable to unitholders</b>			
Distributions to unitholders	8	(40,083)	(66,907)
Transfer to unitholder liabilities		419,366	-
<b>Net profit/(loss) for the year</b>		<b>-</b>	<b>-</b>

The income statement should be read in conjunction with the accompanying notes.





BALANCE SHEET AS AT 30 JUNE 2008

	Note	2008 \$000's	2007 \$000's
<b>Assets</b>			
Cash and cash equivalents		1,259	132,052
Other financial assets	9	96,655	176,020
Receivables	10	693	8,988
Financial assets held at fair value through profit or loss	11	21,122	297,380
Mortgage loans	12	275,994	271,571
Other assets		-	653
<b>Total assets</b>		<b>395,723</b>	<b>886,664</b>
<b>Liabilities</b>			
Distributions payable	8	6	5,751
Payables	13	4,935	822
Interest bearing liabilities	14	55,000	-
<b>Total liabilities (excluding net assets attributable to Unitholders)</b>		<b>59,941</b>	<b>6,573</b>
<b>Net assets attributable to unitholders – liability</b>	7	<b>335,782</b>	<b>880,091</b>
<b>Represented by:</b>			
Total net assets attributable to unitholders		<b>335,782</b>	<b>880,091</b>
		<b>335,782</b>	<b>880,091</b>

The balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

In accordance with AASB132 *Financial Instruments: Disclosure and Presentation*, unitholders' funds are classified as a liability and accordingly the Fund has no equity for financial statement purposes.

Movements in unitholders' funds are disclosed in note 7 to the accounts.



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$000's	2007 \$000's
<b>Cash flows from operating activities</b>			
Interest, fees and investment income received		23,503	51,742
Borrowing costs		(12,650)	(643)
Other cash payments in the course of business		(10,045)	(22,102)
<b>Net cash inflow/(outflow) from operating activities</b>	17	808	28,997
<b>Cash flows from investing activities</b>			
Mortgage loan advances		(162,039)	(226,607)
Mortgage loan repayments		71,918	266,712
Purchase of investments in managed investment schemes		(82,787)	(64,101)
Redemptions of investments in managed investment schemes		178,540	78,459
Fixed interest securities purchased		(2,547)	(203,822)
Fixed interest securities redeemed		94,963	133,329
Other investments purchased		(190,810)	(204,917)
Other investments sold		76,933	165,494
<b>Net cash inflow/(outflow) from investing activities</b>		(15,829)	(55,453)
<b>Cash flows from financing activities</b>			
Proceeds from applications by Unitholders		115,044	516,426
Payments for redemptions by Unitholders		(239,988)	(341,129)
Distributions paid		(45,828)	(65,763)
Proceeds from borrowings		200,000	140,000
Repayment of borrowings		(145,000)	(140,000)
<b>Net cash inflow/(outflow) from financing activities</b>		(115,772)	109,534
<b>Net increase/(decrease) in cash and cash equivalents</b>		(130,793)	83,078
Cash and cash equivalents at beginning of year		132,052	48,974
<b>Cash and cash equivalents at the end of the year</b>	17	1,259	132,052



## **NOTES**

### **NOTE 1. GENERAL INFORMATION**

This financial report covers the Premium Income Fund (the 'Fund') as an individual entity. The Fund was constituted on 22 December 1999.

The Responsible Entity of the Premium Income Fund is Wellington Investment Management Limited. The responsible entity's registered office is Level 22, 307 Queen Street, Brisbane, Qld, 4000. The financial report is presented in Australian currency.

The financial statements were authorised for issue by the directors on 29 September 2008. The directors of the responsible entity have the power to amend and reissue the financial report.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

### **NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

#### **Compliance with International Financial Reporting Standards (IFRS)**

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Fund, comprising the financial Statements and notes thereto, complies with International Financial Reporting Standards.

#### **(b) Going concern**

The financial report has been prepared on a going concern basis.

In determining this basis for preparation of the financial report, the directors have regarded the following in its assessment:

During the year to 30 June 2008 the Fund utilised a \$200m cash advance facility with an external lender. During the period to 31 December 2007, one of the ratio covenants was breached, and as a result, this facility became repayable on demand. Failure to meet this repayment, or to come to an acceptable arrangement with the bank, would have caused the fund to be placed into immediate receivership. To avoid this situation, the directors entered into a standstill agreement with the bank but this placed a very onerous repayment schedule on the fund. The standstill agreement was renewed several times during the year and at the date of this report the bank facility has been repaid. The remaining balance outstanding was able to be repaid as a result of obtaining a further loan facility with another external lender. (Refer to Note 19). The directors are confident they will be able to repay the facility by the maturity date, however, this is highly dependent on the ability of the fund to realise cash inflows prior to this date.

Further, there has been a severe decline in property markets in Australia caused by the credit restrictions imposed by banks in response to the US sub-prime crisis. This has caused a substantial reduction in the market value of the Fund's assets. Material uncertainty surrounds the valuation and collectability, in full, of a large proportion of the Fund's loan and investment portfolio (refer to Notes 9, 11 and 12). The directors, with the assistance of external advisers, have endeavoured to assess the potential value of each of the Fund's assets. This process has resulted in a decline of approximately \$367 million in the assessed fair value of the Fund's loan and investment portfolio from 31 December 2007.

As reported in the 31 December 2007 interim report, the events faced by Octaviar Limited, which has recently appointed a voluntary administrator, did result in a significant increase in the number of investors in the Fund seeking to redeem their units. With effect from 29 January 2008, the Fund has ceased



payments of distributions and redemptions to unit holders for up to 360 days in accordance with the Fund's Constitution.

The financial collapse of Octaviar Limited has also impacted other Octaviar Limited related entities, resulting in material uncertainty in relation to the recoverability of the Fund's credit and equity exposure to these entities. The collapse of Octaviar and its suspension from the ASX, also eroded the value of the support facility under which the results of the fund were supported by a guarantee of up to \$50 million from Octaviar Limited.

As such, there is material uncertainty as to whether the Fund can continue as a going concern.

However, after taking into account all available information, the directors have concluded that there are reasonable grounds to believe the Fund will be able to pay its debts as and when they become due and payable and continue in operation without any intention, or necessity, to liquidate or otherwise wind up its operations. As such, the basis of preparation of the financial report on an on going basis is appropriate.

This conclusion has been based after considering the below:

- ✿ The Fund's net asset position as at 30 June 2008;
- ✿ The forecasted results and cash flows of the Fund expected over the next twelve months from the date of this report.
- ✿ WIML is continuing to pursue legal and other avenues to protect unit holder interests in credit and equity assets which are related to Octaviar Limited;
- ✿ The Fund has deferred processing and payments of withdrawal requests received for up to 180 days. As per the Product Disclosure Statement, the Fund's Constitution also allows for this 180 day period to be extended to 360 days in certain limited circumstances. On 10 March 2008, the directors of WIML exercised this right in accordance with the Constitution.
- ✿ The anticipated favourable outcome from a vote by unitholders on 15 October 2008 to change the Fund's Constitution which will allow for units to be traded on the National Stock Exchange. The proposed change to the Constitution will extinguish the redemption provisions. If approved, the responsible entity will be under no obligation to permit withdrawal of units from the Fund other than by way of a Unitholder effecting a secondary sale of their units on the NSX or by way of buy-back.

### (c) Financial instruments

#### (i) Classification

The Fund's investments are categorised as follows. They comprise:

- ✿ Financial instruments designated at fair value through profit or loss upon initial recognition.

These include financial assets that are held for trading purposes and which may be sold. These are investments in fixed interest securities, equity instruments and units in managed investment schemes.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.
- ✿ Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included in receivables in the balance sheet (note 12).

#### (ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.



Investments are derecognised when the right to receive cashflows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

### **(iii) Measurement**

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

#### ***Fair value in an active market***

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

#### ***Fair value in an inactive or unquoted market***

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used in a market at the balance sheet date applicable for an instrument with similar terms and conditions

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Investments in other unlisted unit funds are recorded at the redemption value per unit as reported by the managers of such funds.

#### ***Other financial assets***

Included in 'other financial assets' are loan assets which are measured initially at fair value (plus transaction costs directly attributable to the acquisition) and subsequently at amortised cost using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheets date to determine whether there is objective evidence of impairment. For example when there has been a significant or prolonged decline in the fair value below cost.

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

#### ***Mortgage loans***

Mortgage loans held by the Fund are classified as mortgage loans and are stated at amortised cost, with any impairment loss recognised directly in the income statement. The carrying amount of the mortgage loans represents principal less repayments, plus any compound interest. Interest is calculated using the effective interest method.

### **(d) Net assets attributable to Unitholders**

Units are normally redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund at any time for cash equal to a proportionate share of the Funds' net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet's date if Unitholders exercised



their right to put the units back to the Fund. Currently, redemptions have been suspended. Refer to Note 7 for further information on the current unit price of the Fund.

### **(e) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, high liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(f) Revenue recognition**

#### ***Interest income***

Interest income is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income is recognised on a gross basis, including withholding tax, if any.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### ***Investment income***

Income from debt units or preferential units where the income is effectively of a fixed nature is recognised as it accrues.

Income from managed investment schemes and fixed securities is recognised on an accruals basis and is thus accounted for in the period to which the income relates.

Revenue from dividends and distributions from other investments is recognised at the earlier of declaration or receipt.

#### ***Realised profit and loss on sale***

The gain or loss on disposal of current investment assets is recognised as income or expense at the date that control of the asset passes to the buyer, usually the settlement date of the contract note.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

#### ***Loans and other fees***

Loan fees include exit fees on loans and are recognised at the earlier of receipt or when the quantum and receipt of the fees is considered virtually certain. When fees relate to a loan which is still outstanding at balance date, the fees are recognised as income on an accruals basis.

All other fees are recognised as income on an accruals basis.

### **(g) Borrowing costs**

Borrowing costs incurred for the use of the revolving credit facility with external lenders are capitalised and spread over the life of the facility. Other borrowing costs are expensed.

### **(h) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Fund's assessment of the impact of these new standards and interpretations is set out below.



(i) *AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 may result in a change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on the financial performance. The information being reported will be based on the information the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Fund has decided not to early adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) *Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and interpretations 1 & 12].*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Fund as the Fund does not hold any qualifying assets.

(iii) *Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Fund intends to apply the revised standard from 1 July 2009.

**NOTE 3. INTEREST INCOME**

	Year Ended 30 June 2008			Year Ended 30 June 2007		
	Average Balance \$000's	Interest \$000's	Average rate %	Average Balance \$000's	Interest \$000's	Average rate %
Cash and deposits - domestic	40,974	3,954	9.65	62,213	2,882	4.63
Fixed interest securities - domestic	109,507	7,611	6.95	81,367	7,252	10.16
Interest - promissory notes	4,631	558	12.05	10,000	894	8.94
Mortgage loans	332,021	29,320	8.79	309,281	33,333	10.78
Asset backed investments	243,097	20,190	8.31	160,042	17,980	11.23
		61,633			62,341	

The contracted interest rates for mortgage loans range from 9.2% to 16.25% (2007: 8.55% to 16.25%). In accordance with the accounting policy in Note 2(f), the effective interest rate calculation may lead to a different amount of interest recorded in the income statement to the contracted interest rate.

The contracted interest rates for asset backed investments range from 9.0% to 12.25% (2007: 6.0% to 13.0%). In accordance with the accounting policy in Note 2(f), the effective interest rate calculation may lead to a different amount of interest recorded in the income statement to the contracted interest rate.



**NOTE 4. INVESTMENT INCOME**

	Year Ended 30 June 2008			Year Ended 30 June 2007		
	Average Balance \$000's	Interest \$000's	Average rate %	Average Balance \$000's	Interest \$000's	Average rate %
Unrelated managed investment schemes	40,801	3,588	8.79	143,463	13,489	9.40
Related managed investment schemes	112,291	2,574	2.29	40,858	3,416	8.36
		6,162			16,905	

The contracted returns for investments in managed investment schemes range from 6.08% to 17.48%. The (2007: 8.50% to 10.63%). In accordance with the accounting policy in Note 2 (f) the effective interest rate calculation may lead to a different amount of interest recorded in the income statement to the contracted interest rate.

**NOTE 5. LOAN AND OTHER FEES RECEIVED**

	2008 \$000's	2007 \$000's
Mortgage loan fees	349	-
Guarantor fee	-	13
Rebateable commission	7	-
Investor penalties	-	52
	356	65

**NOTE 6. AUDITOR'S REMUNERATION**

<b>Audit Services</b>		
PricewaterhouseCoopers	161,679	15,980
<b>Non-audit services</b>		
Other regulatory audit services - KPMG	36,129	28,824
<b>Total remuneration</b>	<b>197,808</b>	<b>44,804</b>

**NOTE 7. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. Each unit has the same rights attaching to it as all other units of the Fund.

As explained in Note 2, on the 29 January 2008 the Board of WIML resolved to defer the processing and payment of redemptions for up to 180 days whilst cash available to meet the redemptions is substantially increased. Further on 10 March 2008, the Board extended the deferment a further 180 days in accordance with the Fund's Constitution.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:





Net assets attributable to unitholders	30 June 2008 Number 000's	30 June 2007 Number 000's	30 June 2008 Liability \$000's	30 June 2007 Liability \$000's
Opening balance	880,091	704,795	880,091	704,795
Redemptions	(239,988)	(341,129)	(239,988)	(341,129)
Applications - cash	100,561	493,890	100,561	493,890
Applications - reinvestments	14,483	22,535	14,484	22,535
Net loss for the period	-	-	(419,366)	-
	(124,944)	175,296	(544,309)	175,296
<b>Closing balance</b>	<b>755,147</b>	<b>880,091</b>	<b>335,782</b>	<b>880,091</b>

In accordance with the Fund's Constitution, if there are insufficient funds available to pay distributions, withdrawals and expenses then WIML may temporarily adjust distributions, issue prices and withdrawal prices to meet this shortfall. If this happens, WIML would calculate the value of a unit as the net value of the Fund's property divided by the number of units on issue.

As per the Product Disclosure Statement, WIML issue and withdraw units at \$1.00 per unit unless WIML consider this does not accurately reflect the value of a unit. As noted in Note 2, there is material uncertainty in relation to the recoverability of the Fund's credit and equity exposures in its' assets and this has impacted on the ability of the Fund to pay withdrawals at \$1.00 per unit. As noted in the table above, in the opinion of the directors the current value of a unit is approximately \$0.45. This is in accordance with the Fund's Constitution.

The directors expect to pay unitholders 3 cents per unit by 31 December 2008. The amount of future cash payments will be determined by the directors at the appropriate time and having regard for the Fund's financial position and the cash reserves available for distribution.

## NOTE 8. DISTRIBUTIONS TO UNITHOLDERS

### Timing of distributions

Distributions were paid monthly from 1 July 2007 to 31 January 2008 at which time they were suspended.

The distributions were paid/payable as follows:

	YEAR ENDED			
	30 June 2008 \$000'S	30 June 2008 cents per unit	30 June 2007 \$000'S	30 June 2007 cents per unit
<b>Distributions paid or payable</b>				
Distributions paid	40,083	4.90	61,156	7.65
Distributions payable	-	-	5,751	0.65
<b>Total Distributions</b>	<b>40,083</b>	<b>4.90</b>	<b>66,907</b>	<b>8.30</b>

WIML has a contractual arrangement with Octaviar Limited (the 'MFS Support Facility') whereby it can call upon funds from Octaviar Limited in the event the Fund does not earn sufficient income to meet distributions to investors at the target rates of return. On 26 February 2008, WIML exercised its rights and called upon these funds. Refer to Note 21.



## NOTE 9. OTHER FINANCIAL ASSETS

	2008 \$000's	2007 \$000's
Asset backed investments	268,348	176,020
Provision for impairment	(171,693)	-
<b>Written down value of asset backed investments</b>	<b>96,655</b>	<b>176,020</b>

Included in Asset Backed Investments are investments in Octaviar Limited related entities as follows:

	Note	Investment 2008 \$000's	Written down value \$000's	Investment 2007 \$000's	Written down value \$000's
Octaviar PECS Trust	(a)	5	1	5	5
Octaviar Pacific Finance Notes	(b)	23,790	-	23,000	23,000
Octaviar Living & Leisure Australia	(c)	77,945	27,000	8,348	8,348
Octaviar Rap Limited	(d)	5,081	-	-	-
Octaviar Causeway Private Debt Opportunity Fund	(e)	21,300	14,700	-	-
Investments subject to participation agreements with Octaviar related entities	(f)	62,467	-	-	-
		<b>190,583</b>	<b>41,701</b>	<b>31,353</b>	<b>31,353</b>

## Basis of Valuation

- (a) The Octaviar PECS Trust is being liquidated and it has advised the Fund that a recovery of \$1,000 is likely from the net proceeds of liquidation.
- (b) The fund has a \$23M (2007 - \$23M) investment in interest bearing unsecured notes with Octaviar Pacific Finance Limited which matured on 31 March 2008. The notes were not repaid on maturity. Recovery of the investment was previously expected through a call on the Octaviar Support Facility (Refer Note 21). The directors now assess that recovery is unlikely due to severe financial difficulties surrounding the Octaviar Limited Group as noted in Note 2 (b).
- (c) Unsecured loans amounting to \$78M had been advanced to the ASX listed Living & Leisure Australia Trust in the period ended 30 June 2008. Living and Leisure Australia Trust encountered financial difficulties and was suspended from the ASX on 21 January 2008. The loans which matured on 30 May 2008 could not be repaid. A recapitalisation proposal from Artic Capital Limited was accepted by secured creditors in May 2008 which prevented the Trust entering liquidation. Under the terms of that proposal PIF would receive \$27M spread over three years in full satisfaction of amounts owing by Octaviar Living and Leisure Trust. An amount of \$10M has been received since the end of the financial year.
- (d) Octaviar RAP Limited is embroiled with the financial difficulties being encountered by the Octaviar Limited Group and it is considered that any recovery of the debt is unlikely.
- (e) On 2 May 2007 the fund provided Octaviar Causeway Private Debt Opportunity Fund with a loan facility of \$50 million. At 30 June 2008 \$21.5 million remained outstanding. Whilst the debt is secured by a fixed and floating charge over Octaviar Causeway Private Debt Opportunity Fund assets, the world-wide credit tightening being experienced currently, has diminished the value of this security. In return for cancelling the approved but undrawn portion of the loan facility, negotiations were concluded, with PIF accepting a refinance proposal of \$14.7 million which was to be paid by 31 July 2008. That payment has not been made at the date of this report. The directors remain confident that this payment will be made in full.



## PREMIUM INCOME FUND

- (f) The fund entered into a participation agreement with Octaviar Pacific Finance Limited (PAC) dated November 2007 whereby the Fund would participate in loans previously originated by PAC. The participation agreement covers six corporate loans with varying maturities, the longest of which is 2 October 2009. All of the loans are non-performing and PAC claims the Fund's priority ranks behind that of PAC it is considered by the directors that any recovery is unlikely.

### NOTE 10. RECEIVABLES

	2008 \$000's	2007 \$000's
Trade receivables	392	86
Interest receivable	72	8,902
GST receivable	229	-
	<b>693</b>	<b>8,988</b>

### NOTE 11. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

#### Unrelated Entities

Equity securities	5,599	188,824
Fixed interest securities	15,523	108,556
	<b>21,122</b>	<b>297,380</b>

Included in the total of financial assets held at fair value through profit or loss are investments in Octaviar related entities as follows:

	Note	Investment 2008 \$000's	Fair value 2008 \$000's	Investment 2007 \$000's	Fair value 2007 \$000's
Octaviar Blue Sky Development Trust	(a)	1,550	-	1,551	1,551
Octaviar Property Trust No 7	-	998	-	998	998
Octaviar Maximum Yield Fund	(b)	85,000	-	-	-
		<b>87,548</b>	<b>-</b>	<b>2,549</b>	<b>2,549</b>

#### Basis of Valuation

- (a) The Octaviar Blue Sky Development Trust has invested in a second ranking mortgage in a major tourist resort in North Queensland. Recent offers to purchase that resort have been insufficient to satisfy the first mortgage debt. The directors consider therefore that any recovery for the Fund is unlikely.
- (b) The Octaviar Maximum Yield Fund has only three investments which have been valued as follows:

	Note	Investment 2008 \$000's	Fair Value 2008 \$000's	Investment 2007 \$000's	Fair Value 2007 \$000's
Q Deck (Qld) Pty Ltd	(c)	30,000	-	-	-
Octaviar Blue Sky Development Trust	(d)	45,098	-	-	-
Octaviar Pacific Finance Limited participation loan	(e)	9,902	-	-	-
		<b>85,000</b>	<b>-</b>	<b>-</b>	<b>-</b>



## PREMIUM INCOME FUND

- (c) The valuation of the asset supporting the Q Deck (Qld) Pty Ltd investment (an Octaviar Limited group entity) has been adversely affected by the general downturn in the Australian property market and the financial difficulties currently being experienced by Octaviar Limited. The Fund's investment is second ranking and recovery of the full amount of the investment is considered unlikely.
- (d) The investment in the Octaviar Blue Sky Development Trust has, in the opinion of the Directors, no value, refer to Note 11(a).
- (e) The Octaviar participation loan had been repaid prior to 30 June 2008 but the proceeds were held in a solicitors trust account pending clarification of the priorities between Octaviar Pacific Finance Limited and the Premium Income Fund. Following examination of the documents and after seeking legal opinion, the Directors came to the conclusion that Octaviar Pacific Finance Limited was entitled to all of the proceeds and that any recovery for the Fund was unlikely. Subsequent to year end this conclusion has been confirmed and the proceeds of the loan repayment have been paid to Octaviar Pacific Finance Limited.

## NOTE 12. MORTGAGE LOANS

	2008 \$000's	2007 \$000's
Mortgage loans	361,692	271,571
Provision for impairment	(85,698)	-
<b>Written down value of mortgage loans</b>	<b>275,994</b>	<b>271,571</b>

Mortgage loans are secured by registered mortgages. The recoverability of mortgage loans has been unfavourably affected by the tightening in global credit markets and a general decline in property valuations across Australia. It now appears that some of the valuations which were relied upon previously, are no longer appropriate due to the change in market conditions. Further, as loans fall into default, the capitalising interest charges cause the loan balance to increase beyond prudent property valuations. Interest is capitalised to the loans in accordance with the accounting policy at Note 2(f).

With the assistance of independent advisors, the directors have made an assessment of each mortgage loan to determine the likelihood of recovery and the extent of any possible impairment in the value of these investments. Where, in the opinion of the directors, an assets value is impaired, the asset has been written down to the director's assessment of its fair value.

In assessing the fair value of each mortgage loan the directors, aided by their external advisors have considered the following evidence wherever it is available:

- (a) recent offers to purchase the assets or refinance the loans after sustained marketing campaigns;
- (b) recent valuations of the underlying securities;
- (c) for construction projects, the estimated completed value less the estimated cost to complete as provided by quantity surveyors;
- (d) general market conditions;
- (e) the financial position of the borrower; and
- (f) the loan status (performing / non-performing etc.).

As at 30 June 2008 there were 23 loans past due for repayment (2007: 5 loans) with a total principal balance of \$214,207,055 (2007:\$35,415,017).

Subject to WIML operating within the lending policy stipulated in the insurance policy, Underwriters, Lloyd's of London, have indemnified WIML and the Fund, in respect of certain loans only, should the proceeds of a forced sale of mortgaged property not provide sufficient funds for repayment of the mortgage. Not all loans were insured and loans transferred from within the Octaviar Limited group were not insured. An insurance claim is possible only when the Fund takes possession of a property, sells the property and incurs a loss. Any claim is then only possible for any principal lost and does not cover interest and fees. The maximum loss covered by the policy is 66.67% of each principal amount, excluding interest and charges, or \$3,000,000 whichever is the lesser.



**NOTE 13. PAYABLES**

	2008 \$000's	2007 \$000's
Trade payables	921	16
Accrued expenses	3,947	749
GST payable	67	57
	<b>4,935</b>	<b>822</b>

**NOTE 14. INTEREST BEARING LIABILITIES**

Bank loan	<b>55,000</b>	-
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The bank loan is secured by a fixed and floating charge over all of the assets of the Fund. The interest rate is 12.8% pa. The loan was repayable by 31 July 2008 and since balance date the Fund has met this repayment date.

**NOTE 15. FINANCIAL RISK MANAGEMENT**

The Fund is exposed to market price risk, interest rate risk, credit risk and liquidity risk arising from the financial instruments it holds. The risk management policies employed by the Fund to manage these risks are discussed below.

**Credit risk**

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Concentrations of credit risk are minimised primarily by:

- (a) ensuring counterparties, together with the respective credit limits, are approved
- (b) ensuring that transactions are undertaken with a large number of counterparties, and
- (c) ensuring that the majority of transactions are undertaken on recognised exchanges.

As at 30 June 2008, the Fund's investments in mortgage loans, comprised loans to 34 borrowers (2007:35), with borrowings ranging from approximately \$0.7m to \$59.5m (2007 approximately \$0.7m to \$31.6m). As at 30 June 2008 there were 23 loans past due for repayment (2007: 5 loans) with a total principal balance of \$214,207,055 (2007: \$35,415,017).

The Fund's lending policies require a registered first mortgage to be held at a loan to valuation ratio of no more than 66.67%. For all mortgage loans a registered first mortgage is held, with the exception of those assets associated with the participation agreement with Octaviar related entities as disclosed in Notes 9 and 11. As disclosed in Note 2(b), due to the amount of uncertainty associated with the fair value of the collateral held, the directors believe that the disclosure of fair value is impractical at this time.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As disclosed in Note 2(b), there is material uncertainty on the recoverability of the Fund's loan and investment portfolio. In the director's opinion, the interest rate sensitivities disclosures associated with the Fund's loan and investment portfolio are not of a useful measure to the unit holders. The interest rate sensitivity impact on the income statement would be immaterial. Mortgage loans are at fixed interest rates and are therefore not affected by changes in interest rates.

A +/- 100 bps change in interest rates for interest bearing liabilities would have a \$550,000 increase/decrease on the net operating profit/(loss) of the Fund.

The Fund's exposure to interest rate risk and the weighted average effective interest rate is set out in the following table:



NOTE 15. INTEREST RATE RISK (CONTINUED)

2008	Weighted average interest rate (% pa)	Floating interest rate (% pa)	Fixed interest rate				Non-interest bearing (\$000's)	Total (\$000's)
			3 month or less (\$000's)	4 to 12 months (\$000's)	1 to 5 years (\$000's)	Over 5 years (\$000's)		
<b>Financial Assets</b>								
Cash and cash equivalents	4.00	1,259	-	-	-	-	-	1,259
Asset backed investments	8.31	-	96,655	-	-	-	-	96,655
Trade & other receivables	-	-	-	-	-	-	693	693
Managed investment schemes	8.69	-	4,982	-	-	-	-	4,982
Fixed interest securities	6.95	-	11,140	5,000	-	-	-	16,140
Mortgage loans	8.79	-	175,661	100,333	-	-	-	275,994
Other assets	-	-	-	-	-	-	-	-
<b>Total Assets</b>		1,259	288,438	105,333	-	-	693	395,723
<b>Financial Liabilities</b>								
Trade & other payables	-	-	-	-	-	-	4,935	4,935
Distributions payable	-	-	-	-	-	-	6	6
Interest bearing liabilities	12.80	-	55,000	-	-	-	-	55,000
Net assets attributable to Unitholders	-	-	-	-	-	-	335,782	335,782
<b>Total Liabilities</b>		-	55,000	-	-	-	340,723	395,723



## PREMIUM INCOME FUND

2007	Weighted average interest rate (% pa)	Fixed interest rate					Non-interest bearing (\$000's)	Total (\$000's)
		Floating interest rate (% pa)	3 month or less (\$000's)	4 to 12 months (\$000's)	1 to 5 years (\$000's)	Over 5 years (\$000's)		
<b>Financial Assets</b>								
Cash and cash equivalents	4.63	132,052	-	-	-	-	-	132,052
Asset backed investments	11.23	-	-	176,020	-	-	-	176,020
Trade & other receivables	-	-	-	-	-	-	8,988	8,988
Managed investment schemes	9.19	-	-	37,370	151,454	-	-	188,824
Fixed interest securities	10.16	-	-	98,556	-	-	-	98,556
Mortgage loans	10.78	-	-	202,103	69,468	-	-	271,571
Promissory & unsecured notes	8.94	-	-	10,000	-	-	-	10,000
Other assets	-	-	-	-	-	-	653	653
<b>Total Assets</b>		132,052	-	524,049	220,922	-	9,641	886,664
<b>Financial Liabilities</b>								
Trade & other payables	-	-	-	-	-	-	822	822
Distributions payable	-	-	-	-	-	-	5,751	5,751
Net assets attributable to Unitholders	-	-	-	-	-	-	880,091	880,091
<b>Total Liabilities</b>		-	-	-	-	-	886,664	886,664



### Market price risk

Market price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

### Liquidity and cash flow risk

Liquidity risk is the risk that the Fund will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- (a) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- (b) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The table below analyses the Funds financial liabilities into relevant maturity groupings based on the remaining period to contractual maturity.

2008	Less than 1 month \$000's	1 – 6 months \$000's	6-12 months \$000's	1 – 2 years \$000's
Trade & other payables	4,935	-	-	-
Distributions payable	6	-	-	-
Interest bearing liabilities	55,000	-	-	-
Net assets attributable to unitholders	-	-	277,262	58,520
	59,941	-	277,262	58,520

Net assets attributable to unitholders have been classified in the greater than 6 months category because the redemptions in the Fund are currently deferred (refer to Note 7)

2007	Less than 1 month \$000's	1 – 6 months \$000's	6-12 months \$000's	1 – 2 years \$000's
Trade & other payables	822	-	-	-
Distributions payable	5,751	-	-	-
Interest bearing Liabilities	-	-	-	-
Net assets attributable to unitholders	135,726	94,359	501,095	148,911
	142,229	94,359	501,095	148,911

### Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at fair value.

## NOTE 16. RELATED PARTY TRANSACTIONS

### Responsible Entity

The responsible entity of the Premium income Fund is Wellington Investment Management Limited (ABN 20 101 634 146). Prior to 13 June 2008, the responsible entity was known as Octaviar Investment Management Limited. From 19 June 2008, the responsible entity changed it's name to Wellington Investment Management Limited following the acquisition of the responsible entity by Wellington Capital Limited.





## PREMIUM INCOME FUND

### Custodian

The custodian of the Fund is Perpetual Nominees limited (ACN 000 733 700). Custodian fees have been paid by the Fund.

### Key management personnel

Key management personnel includes persons who were directors of Wellington Investment Management Limited at any time during the financial year. Details of the directors of the Responsible Entity are disclosed in the director's report.

### Responsible Entity's/manager's fees and other transactions

The responsible entity is entitled to receive:

- (a) all surplus funds generated by the Fund only after all current distribution, redemption and expense obligations have been satisfied at the end of each month.
- (b) reimbursement of fund expenses incurred on behalf of the Fund.

Transactions with related parties are set out below

	2008 \$	2007 \$
Management fees for the year by the Fund to the responsible entity.	6,098,277	16,091,892

After 13 June 2008 the company changed its name to Wellington Investment Management Limited and no fees have been paid, or are payable, to the responsible entity by the fund.

### Aggregate amounts payable to the Responsible Entity at the reporting date

	2008 \$	2007 \$
Responsible Entity	1,411,021	464,630
Octaviar Administration Pty Ltd	-	16,500

The amount payable to the responsible entity are for reimbursement of fund expenses paid by the responsible entity on behalf of the Fund and do not include any management fees. These amounts are included in accounts payable and accrued expenses.

### Related party schemes' unitholdings

Parties related to the Fund (including Wellington Investment Management Limited, its related parties and other schemes of which Wellington Investment Management Limited is the responsible entity), held units in the Fund as follows:

#### Year Ended 30 June 2008

	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable (\$)
Octaviar Wholesale Premium Income Fund	75,712,331	84,429,891	11.2	8,717,560	-	3,837,035
Octaviar Cash Enhanced Fund	503,418	-	-	-	503,418	-

#### Year ended 30 June 2007

	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable (\$)
Octaviar Wholesale Premium Income Fund	61,077,053	75,712,331	8.60	59,952,786	45,317,508	5,348,917
Octaviar Cash Enhanced Fund	-	503,418	0.05	783,418	280,000	34,304



## PREMIUM INCOME FUND

### Key management personnel compensation

The current directors have not received any remuneration from the Responsible Entity, the Fund, or any of the entities formerly controlled by the Fund.

### NOTE 17. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2008 \$000's	2007 \$000's
Net profit/(loss)	(379,283)	66,907
Capitalised Interest and insurance	-	(26,209)
Net unrealised (gain)/loss on financial instruments designated as fair value through profit or loss	281,331	(3,225)
Impairment of mortgage loans	85,698	-
Decrease/(increase) in receivables	8,938	(6,413)
(Decrease)/increase in payables	4,124	(1,420)
Net cash inflow/(outflow) from operating activities	808	29,640

### Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash and cash equivalents	1,259	132,052
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### Non-cash financing and investing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

14,483	22,535
<b>14,483</b>	<b>22,535</b>

### NOTE 18. SEGMENT INFORMATION

A segment is a distinguishable component of the Fund that is engaged either in a business segment or within a particular geographical segment, which are subject to risks and rewards that are different from those of other segments.

The Fund is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Fund's financial statements.

The Fund operates in Australia and all directly held assets are predominantly Australian. Some of these assets may themselves hold overseas assets.

The Fund also invests in certain securities which are listed both on the Australian and international stock exchanges.

### NOTE 19. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The future of the Fund will be decided by Unitholders at an extraordinary general meeting to be held on 15 October 2008. At that meeting unitholders will be asked to vote on the following resolutions proposed by the responsible entity:

- that the Constitution of the fund be modified. This will enable units in the fund will be able to be traded on the NSX;
- that Wellington Capital Limited be appointed as the new responsible entity of the fund; and
- that the responsible entity be authorised to make a buy-back offer for up to 37.75 million units in the fund at 45 cents per unit by 18 September 2009.



## PREMIUM INCOME FUND

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These unitholder resolutions will determine the future direction of the fund and will determine likely developments and the expected results of operations.

These matters will significantly affect, or may significantly affect:

- (a) the operations of the Fund in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the state of affairs of the Fund in future financial years.

Since the end of the financial year, the bank debt, which had been incurred by the previous directors and which carried with it the threat of liquidation, has been repaid (see Note 14). Accordingly, the threat of receivership from this source has been extinguished.

To enable the repayment of the bank debt, the fund has entered into a new finance facility with a non-bank financial institution. The terms of that facility are as follows:

Approved facility	\$20 million
Amount drawn at the date of this report	\$9.4 million
Interest Rate	20% pa
Maturity Date	30 November 2008
Security: A fixed and floating charge over all the assets of the Fund	

As at the date of this report, the directors are confident that the Fund will be able to pay the amount drawn down on the facility by maturity date. However, this is dependent on receiving sufficient cash inflow from the sale, or refinancing, of assets expected to occur before the maturity date.

### NOTE 20. OCTAVIAR LIMITED SUPPORT FACILITY

On the 26 February 2008 the Fund exercised its rights under the Support Mechanism with Octaviar Ltd to call funds to ensure that the fund can meet any shortfall in the target distribution of the fund and/or to meet any fund expenses. Option Notices under the Octaviar Support Facility totalling \$50 million have been issued. The debt has been acknowledged as due. The Octaviar Limited group is financial difficulties and is in voluntary administration. The directors assess the likelihood of payment of the full \$50 million to be materially uncertain. (Refer to Note 2 (b).)

### NOTE 21. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

Apart from matters mentioned in this report, the Fund has no other contingent liabilities or commitments.



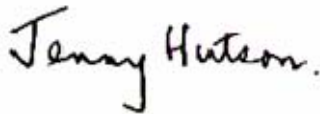
**DIRECTORS' DECLARATION**

In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 2 to 26 are in accordance with the Corporations Act 2001, including
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001

This declaration is made in accordance with a resolution of the directors.



Jenny Hutson  
Director



Robert Pitt  
Director

Brisbane

30 September 2008



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## Independent auditor's report to the unitholders of the Premium Income Fund

### Report on the financial report

We have audited the accompanying financial report of the Premium Income Fund (the "Fund"), which comprises the balance sheet as at 30 June 2008, and the income statement, statement in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Wellington Investment Management Limited, the Responsible Entity, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

**Independent auditor's report to the unitholders of  
the Premium Income Fund (continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of the Premium Income Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

*Material Uncertainty – Going Concern and carrying value of assets*

Without qualification to the above conclusion, we draw attention to note 2(b) in the financial report which indicates that, there is a material uncertainty as to the recoverability of the assets recorded in the financial report. These uncertainties are further explained in notes 9, 11 and 12. These conditions along with other matters as set forth in note 2(b) indicate there is significant uncertainty whether the Fund will continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

*PricewaterhouseCoopers*

PricewaterhouseCoopers



Timothy J Allman  
Partner

Brisbane  
30 September 2008

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## CONTACT US:

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