

Premium Income Fund

Investor Update: August 2012



Welcome to the Investor Update for the Premium Income Fund. This update outlines key details about the Fund’s activities for the period May to August 2012.



During this period, the Fund has settled a number of contracts for properties over which it held as security for mortgage loans, including three adjacent lots at Mackay, and residential lots at Forest Resort, as well as apartments at both the Chifley Wollongong and Icon at Port Macquarie. In addition, the Fund entered into contracts at Townsville and Duns Creek, and a joint venture with a builder and developer who has a significant history of delivering quality developments for a property held as a security asset by the Fund at Nelson Bay.

Separately, the liquidators of Octaviar Administration Pty Ltd (In Liquidation) have confirmed that payment will be made to Wellington Capital as responsible entity of the Premium Income Fund in respect of its \$137.2 million claim in the liquidation. The first payment, which represents 2.2 cents in the dollar, will be \$3.02 million. It is anticipated that further payments will be made to the Fund, although the total amount which will be received will depend on the circumstances of the liquidation.

Kind regards

Jenny Hutson
Managing Director
Wellington Capital
Limited

Investor Updates are mailed to Unitholders for the periods ending April, August and December, and include a restatement of information released to the market by way of NSX releases made in the period to assist the Fund’s many Unitholders who do not have internet or email access.

Key Events

- Annual Taxation Statements for the financial year ended 30 June 2012 were dispatched on 13 August 2012 to all Unitholders.
- The Liquidators of Octaviar Administration Pty Ltd (In Liquidation) recognised the Fund’s claim for \$137.2 million and will make a first payment of 2.2 cents in the dollar to the Fund, being \$3.02 million.
- The Annual Report and Financial Statements for the Premium Income Fund for the year ended 30 June 2012 will be available and released to the market by 13 September 2012.

Despatch of Annual Taxation Statements

Wellington Capital Limited as responsible entity of the Premium Income Fund advises that the Annual Taxation Statements for the financial year ended 30 June 2012 have been finalized and were despatched to all Unitholders by mail on 13 August 2012.

These statements set out the taxation treatment for the cash payments made to Unitholders on 12 December 2011 and 14 March 2012.

Financial Statements for the Premium Income Fund for the year ended 30 June 2012

The Annual Report and Financial Statements for the Premium Income Fund for the year ended 30 June 2012 will be available and released to the market by 13 September 2012.

The Auditor of the Premium Income Fund for the period ending 30 June 2012 is PricewaterhouseCoopers.

For the year ended 30 June 2012, the Directors of Wellington Capital Limited as responsible entity of the Premium Income Fund will review the assets of the Fund based on various principles, which reflect the same basis as carrying values have been determined in recent prior periods.

Where the Fund holds a first mortgage over real property as security for funds advanced in the asset class known as mortgage loans, Wellington Capital Limited as responsible entity for the Fund has instructed valuers to value the security properties in accordance with API’s ‘Professional Practice’ Guidance Notes with particular reference to both the practice standards and guidance notes for ‘Valuations for Mortgage and Loan Security Purposes’, other than where there is more reliable evidence of the value of the security property such as a contract for sale.

Compliance Plan

The Directors of Wellington Capital Limited as responsible entity of the Premium Income Fund have reviewed the Fund’s compliance plan, in particular the procedures for assessing the carrying value of scheme assets. A copy of the Variation to the Compliance Plan for the Fund was lodged with ASIC.

In resolving to amend the plan, consideration has been given to industry best practice, Australian Accounting Standards and the best interests of Unitholders and the relevant methodology for each of the Fund’s current asset classes, being:

Current Asset Classes	
Mortgage Loans	Fixed interest investments
Asset Backed investments	Cash/Liquids
Property managed investments	

The Fund is also authorised to invest in direct real property but does not currently have any assets in this class, nor has it held assets of this nature since Wellington Capital Limited became responsible entity of the Fund.



Commercial Loan Portfolio

Mortgagee in Possession Sale: 48 – 52 Carlyle Street, Mackay

On 29 June 2012, Wellington Capital Limited as responsible entity of the Premium Income Fund announced that settlement of the security property located at Carlyle Street, Mackay had been completed.

The property which was sold is located at 48-52 Carlyle Street, Mackay, Queensland. The site is 2,031m² with an existing development approval in place.

The property is in close proximity to the Mackay City centre with easy access to a variety of retail, commercial and hospitality facilities. It is situated 600 metres from the newly constructed Mackay Convention Centre.

The net contribution to the Fund from the sale of this security property was \$2 million.

Mortgagee in Possession Contract: Dalrymple Road, Mt Louisa

Wellington Capital Limited as responsible entity of the Premium Income Fund announced in June 2012 that it had entered into a conditional Contract for the sale of part of the security property located at Dalrymple Road, Mt Louisa.

The property is located at 507-515 and 523 Dalrymple Road, Mt Louisa. The part subject to this sale is the lower flat area which is being reconfigured into residential housing lots.

The Contract is with a third party property developer and is subject to development approval being obtained. Settlement is due 14 days after registration of the Survey Plan with the Department of Environment and Resource Management.

Capital raised last year has enabled town planners and other consultants to be engaged to reconfigure the property to optimise the amenity and density of the site, thereby maximising its value. The consulting team will continue to work on the reconfiguration of the balance land holding.

The Townville City Council has been active with 2,128 residential lots approved in the year to December quarter 2011 - an increase of 126 per cent compared with the prior period in the year before.

The anticipated net contribution to the Fund on settlement of this part of the property is \$3 million within 12 months.



Mortgagee in Possession Sale and Joint Venture: Nelson Bay

On 23 May 2012, Wellington Capital Limited as responsible entity of the Premium Income Fund announced that it had entered into an agreement for sale of the security asset held at Nelson Bay to a special purpose vehicle.

The Fund is mortgagee in possession of the property, which has a Development Approval for a highrise, medium density residential development, comprising up to 33 apartments.

The property will be sold to a new special purpose vehicle subject to sufficient pre-sales being achieved.

The purchaser is owned by a builder and developer who has a significant history of delivering quality developments. A joint venture to build the 33 apartments will be undertaken with the Fund, if sufficient pre-sales of the apartments are achieved.

Managing Director, Jenny Hutson said, *'This sale and joint venture arrangement is conditional upon relevant presales of apartments and will see the Fund recover \$2 million for the land held as security which exceeds the current carrying value of \$1.5 million, plus a return of any capital contributed to the Joint Venture, being up to \$2.5 million plus 40 percent of the project profit.'*



Mortgagee in Possession: Kooralbyn Resort

On 23 May 2012, Wellington Capital Limited as responsible entity of the Premium Income Fund advised that the proposed purchaser of the Kooralbyn Resort was not in a position to proceed with the contract on an unconditional basis by the Conditions Date in the Contract, and as such, the Contract had come to an end. The property held as security for one of the Fund's loans has since been taken back to the market.

Managing Director Jenny Hutson said, *'This is a disappointing result for the Fund given the very considerable work performed by both the proposed purchaser and Wellington Capital Limited, on behalf of the Premium Income Fund.'*

The security property known as Kooralbyn is situated on more than 350 hectares of land within the beautiful Kooralbyn hinterland valley. The property is 64 kilometres south-west of Brisbane and includes the Kooralbyn Resort and Golf Course, and Kooralbyn International School.

The Kooralbyn Resort operated until 2008 as a 100 room hotel. The Kooralbyn Resort Golf Course was the first resort





golf course built in Australia. From 1986 to 2008 it was featured in every national rating list.

Kooralbyn International School continues to operate today providing private education to students from prep through to year 12. The school offers a well-renowned sports excellence program and is considered the pre-eminent golfing academy in Australia. The school's list of past students is impressive, including Cathy Freeman and four current US PGA Tour winners, Adam Scott, Jason Day, Steven Bowditch and Adam Crawford.



Other Security Asset Sales

Wellington Capital Limited as responsible entity of the Premium Income Fund is pleased to advise that it has sold the following security assets held by the Premium Income Fund.

Residential land sale, Creswick, Victoria (mortgagee in possession)

Settlement has occurred in relation to a residential block of land within the residential development at Forest Resort.

Proceeds from the sale were \$157,000. The remaining residential stages continue to be marketed for sale, together with the resort complex englobo.

The residential development comprises 11 stages and forms part of the underlying security property located at Forest Resort, Creswick.

Apartment sale, Icon Apartments, Port Macquarie, New South Wales (mortgagee in possession)

Settlement has occurred in relation to an apartment in the Icon Apartments complex. Proceeds from the sale were \$560,000.

Rural/Residential land sale, Duns Creek, New South Wales (mortgagee in possession)

Settlement has occurred in relation to a rural/residential lot at the Oxygen Estate at Duns Creek.

Proceeds from the sale were \$151,000. The remaining lots continue to be marketed for sale.

Apartment sale, Chifley Residences, Wollongong, New South Wales

Settlement has occurred in relation to an apartment in the Chifley Wollongong complex. Proceeds were \$610,000.

Claim in the Liquidation of Octaviar Administration Admitted

Wellington Capital Limited as responsible entity of the Premium Income Fund prepared and lodged a proof of debt claim in the liquidation of Octaviar Administration Pty Ltd (In Liquidation), formerly known as MFS Administration Pty Ltd. The adjudication of the claim has now been completed by the Liquidators.

The Premium Income Fund claim has been allowed as to \$137,215,903.70. The first payment to the Fund will be 2.2 cents in the dollar of the Fund's admitted claim of \$137.2 million. In other words, the Fund will receive a first payment of \$3.02 million from the Liquidators.

Managing Director, Jenny Hutson, said, *'This is a positive step forward for the Unitholders in the Premium Income Fund. The proof of debt as adjudicated by the Liquidators recognises that \$130 million of the funds drawn down from the Premium Income Fund bank facility in 2007 was not for the benefit of Unitholders of the Premium Income Fund, but benefited Octaviar Administration Pty Ltd.'*

The Liquidators of Octaviar Administration Pty Ltd have made a first partial distribution. We are confident that further distributions will follow as the Liquidators realise and distribute other assets. This potential return to the Premium Income Fund was not recognised as having value in the Fund's 31 December 2011 financial statements due to the uncertainty associated with it. We are very pleased on behalf of Unitholders that there is now certainty as to the Premium Income Fund's entitlement in the liquidation of Octaviar Administration Pty Ltd. A separate proof of debt has been lodged in the liquidation of Octaviar Limited (In Liquidation), formerly MFS Limited, which has not been adjudicated.'

Litigation Update

There are a number of legal proceedings and other recovery actions regarding the former responsible entity's investment decisions and the loan drawdown in 2007.

Perpetual Nominees Limited v Rytelle Pty Ltd & Ors - Supreme Court of Victoria Proceedings 6858/2009

Perpetual Nominees Limited as custodian of the Premium Income Fund, has brought a claim against the guarantors of a loan to The Forest Resort Pty Ltd, in the Supreme Court of Victoria. The guarantors include Forest Resort Operations Pty Ltd, Mr James Walsh and Mrs Joan Walsh.

The trial has been divided into two distinct stages. The first stage of the trial will determine liability and will be heard in the Supreme Court of Victoria from 10 September 2012.

Class Action — New South Wales Federal Court Proceedings NSD324/2009

As previously advised, neither Wellington Capital Limited nor the Premium Income Fund are parties to this litigation. However, Wellington Capital Limited has been informed that the claims against certain respondents have been discontinued, including Guy Hutchings, John Whateley, Jack



Diamond, Craig White, Deborah Beale, Michael Hiscock, Michael King, Paul Manka and Ian Zelinski. The reasons given for the discontinuance against these persons are that it will limit the likely substantial costs of pursuing claims against those individuals which are doubtful of ultimate recovery.

The proceedings continue against the remaining respondents.

Further updates will be provided as the matter progresses.

ASIC v King, White & Ors – Queensland Supreme Court Proceedings BS12122/2009

As previously advised, neither Wellington Capital Limited nor the Premium Income Fund are parties to this litigation.

Further updates will be provided as the matter progresses.

Auditor

Auditor Clarification

PricewaterhouseCoopers remains the auditor of the Premium Income Fund and will be responsible for the Fund’s financial statements for the period ending 30 June 2012. These financial statements will be released to the market by 13 September 2012.

Investor Advisory Committee

Contacting the Investor Advisory Committee

The Investor Advisory Committee can be contacted by email or by post as set out below.

All correspondence from Unitholders is tabled at each meeting of the Committee. No correspondence is entered into by the Committee directly with individual Unitholders.

iac@wellcap.com.au

Investor Advisory Committee
Premium Income Fund
Wellington Capital Limited
Reply Paid 694
BRISBANE QLD 4001

Investor Advisory Committee Meeting

The Investor Advisory Committee met with the Fund’s management team in August 2012 to discuss correspondence received since the Committee’s last report. The Committee’s report is set out as follows:

“The Committee members met with Fund management to discuss various issues relating to the management of the Fund and other matters of interest and relevance to Unitholders, including all current correspondence received by the Committee.

Sales of Security Assets

The Committee was pleased to receive updates in respect of the sales of underlying security properties of the mortgage assets of the Fund. Various questions were asked regarding the contracts on security properties which had not successfully completed. These were answered by Fund management.

Kooralbyn

The Committee noted Unitholder correspondence about Kooralbyn and asked Wellington Capital Limited to make an announcement updating Unitholders on this security property.

Legal Proceedings

Fund management staff also updated the Committee about the various legal proceedings involving the Fund.

Distributions to Unitholders

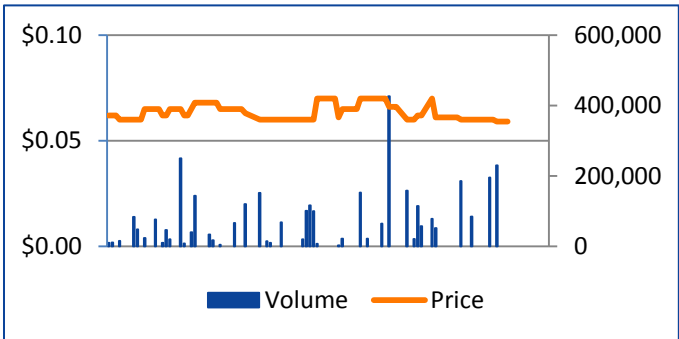
The Committee noted various correspondence from Unitholders seeking clarification regarding the timing and amount of future distributions. The Committee encouraged Fund management staff to continue to seek optimal transactions and sales which would see a return to Unitholders in the Fund as soon as possible.”

National Stock Exchange Update

A summary of trading activity from 1 May 2012 to 31 August 2012 is set out below:

High	Low	Volume
7.0 cents	5.9 cents	3,493,112

Trading summary (NSX:PIN) 1 May 2012 to 31 August 2012



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