



Wellington

PREMIUM INCOME FUND

Annual Report

Premium Income Fund

ARSN 090 687 577

30 June 2012

Letter from the Managing Director

Dear Unitholders,

Welcome to the 2012 Annual Report for the Premium Income Fund. This report outlines key details for the Fund's activities for the 12 months from 1 July 2011 to 30 June 2012.

We have during the past 12 months taken to market a significant number of the security assets of the Premium Income Fund. A number of transactions were finalised in the 12 months to 30 June 2012, this enabled cash payments of 2.5 cents per unit, being \$20.8 million to be made during the 12 months.



The current net assets of the Fund as at 30 June 2012, as set out in the attached financial statements are \$110.49 million which equates to 13.3 cents per unit. We appreciate this is a significant and disappointing impairment to the net asset position per unit.

Eleven of the properties over which the Fund has security were recently valued by members of the Fund's valuation panel. As set out in detail in the report these valuations have assisted the Board determine mortgage loan carrying values as at 30 June 2012. The anticipated timing for sales means that the valuation figures are discounted to reflect the impact of the anticipated time taken to sell the assets. This valuation methodology is known as the 'effective interest method'.

The positioning of assets for sale and marketing of them continues. In addition, planning and construction work have been undertaken on sites where this is likely to improve the overall return to investors and positively change what the Fund has to sell.

The key results for the year are summarised as follows:

Key Results	
Sales of Property held as security for Mortgage Loans	\$4.946 million (plus \$5.4 million payable in February 2014)
Sale of inventory at Wollongong	\$11.72 million
Sales of Other Assets	\$24.41 million
Net total sales for the 12 months	\$41.076 million
Cash payments to Unitholders (2.5 cents per unit)	\$20.763 million
Total Premium Income Fund assets as at 30 June 2012	\$126.929 million
Total net assets	\$110.486 million
Units on issue	830,532,768
Net asset backing per unit as at 30 June 2012	13.3 cents

We are hopeful that the market conditions will enable more positive outcomes to be achieved, as was the case with four of the assets sold over the last 12 months. Our aim is to position the underlying security assets for sale and then take them to market. Net sales proceeds will then be transferred to Unitholders. We understand that the return of the existing value to Unitholders is the priority.

My team and each of my directors are committed to realising assets in the best interests of Unitholders and maximising the outcome for Unitholders.

Thank you for your support during the year.

Kind regards

Jenny Hutton

Managing Director

Wellington Capital Limited as responsible entity for the Premium Income Fund



Sales during the 12 months 30 June 2011 to 30 June 2012

Property held as security for mortgage loans		
Date announced	Property	Net contribution to the Fund
11 July 2011	1 apartment in the Icon Port, Port Macquarie.	\$550,000
28 November 2011	Helidon Sandstone Mine.	\$300,000
30 November 2011	1 apartment in the Icon Port, Port Macquarie.	\$487,000
14 February 2012	1 residential lot at Forest Resort, Creswick.	\$141,000
29 February 2012	294 strata titled storage units at Lane Cove.	\$0.6 million was paid to the Fund at settlement. A further \$5.4 million will be paid 24 months after settlement.
23 May 2012	1 residential lot at Forest Resort, Creswick.	\$157,000
23 May 2012	1 apartment in the Icon Port, Port Macquarie.	\$560,000
23 May 2012	1 residential lot at the Oxygen Estate at Duns Creek.	\$151,000
29 June 2012	48-52 Carlyle Street, Mackay.	\$2 million
Total		\$4.946 million
		(plus \$5.4 million payable February 2014)
Inventory at Wollongong		
11 July 2011	1 apartment at the Chifley Residences, Wollongong.	\$944,000
16 September 2011	1 apartment at the Chifley Residences, Wollongong.	\$624,000
30 November 2011	Sale of 42.5% interest in the Trust that owns Chifley Wollongong Hotel, Wollongong.	\$8 million
14 February 2012	1 penthouse level apartment at the Chifley Residences, Wollongong.	\$900,000
23 May 2012	1 apartment at the Chifley Residences, Wollongong.	\$610,000
28 June 2012	2 apartments at the Chifley Residences, Wollongong.	\$640,000
Total		\$11.718 million
Other assets		
2 December 2011	Capital return from fixed interest securities.	\$4.56 million
22 December 2011	Living & Leisure (Australia) - Sale of Mezzanine C Debt.	\$15 million
23 December 2011	Sale of Living and Leisure (Australia) Limited stapled securities.	\$416,000
23 December 2011	Sale of Centro Retail Australia securities.	\$834,000
14 February 2012	Sale of Nexus Bonds Fixed securities.	\$3.6 million
Total		\$24.41 million



Projects with third parties		
11 July 2011	Sale and delivery of 4, 12, 22, 23, 24 and 30 Trinder Avenue, Maroochydore.	Return to the Fund is in three parts: \$100,000 which has been paid, together with \$40,000 per lot sold and then 50% of the net profit after project costs.
23 May 2012	Sale and delivery to build 33 apartments at Nelson Bay.	If sufficient sales are achieved the apartments will be built and sold with, the land value of \$2 million equity contributed to the project of up to \$2.5 million and 40% of the project profit being returned to the Fund over time.

Litigation and other recoveries

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.

ACN 101 634 146 PTY LTD (FORMERLY MANAGEMENT INVESTMENTS PTY LTD)

On 10 February 2012 Management Investments Pty Ltd (formerly Management Investments Limited, Wellington Investment Management Limited and Octaviar/MFS Investment Management Limited) was placed into liquidation by resolution of its members.

Barry Hamilton of BK Hamilton & Associates is the appointed liquidator of the company.

As a result, the following litigation is currently in the hands of the liquidator:

- Management Investments Limited & Ors ats Mercedes Holdings Pty Ltd – Federal Court Proceedings NSD324/2009;
- Management Investments Limited & Ors ats Australian Securities and Investments Commission – Supreme Court Proceedings 12122/2009;
- Perpetual Nominees Limited v Rytelle Pty Ltd & Ors – Supreme Court of Victoria Proceedings 6858/2009 – with regard to the cross claim component by Rytelle & Ors.

CLASS ACTION: MERCEDES HOLDINGS PTY LTD & ORS V KPMG & ORS – FEDERAL COURT PROCEEDINGS NSD 324/2009

This proceeding is funded by IMF (Australia) Limited. The applicants are represented by Johnston Winter and Slattery.

Wellington Capital Limited, IMF and the Class Action lawyers share the view that the benefit of the Class Action should be for those Unitholders who suffered the loss to which the proceedings relate, that is those Unitholders who were Unitholders in the Premium Income Fund as at 15 October 2008 whether they remain Unitholders or not.

Wellington Capital Limited as responsible entity of the Premium Income Fund will, in relation to the legal proceedings in the Federal Court and any future proceedings, ask the court to make orders that any resulting damages or compensation be paid to the Unitholders at the time the loss was incurred, being 15 October 2008. If a settlement is reached, one of the terms will be that any agreed settlement sum be paid to Unitholders as at 15 October 2008.

Investors buying units in the Premium Income Fund, whether on market or off market, should do so on the basis that they will not be entitled to any damages or compensation received from any legal action relating to the claim for losses suffered by Unitholders as at 15 October 2008.



AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION V MANAGEMENT INVESTMENT PTY LTD & ORS – SUPREME COURT OF QUEENSLAND PROCEEDINGS 12122/2009

Proceedings in the Supreme Court of Queensland continue in relation to the drawdown of the Premium Income Fund's finance facility in November 2007 and December 2007.

The proceedings seek declarations of contraventions, pecuniary penalties, compensation and disqualifications from managing corporations pursuant to the *Corporations Act 2001* (Cth).

The proceedings allege that:

- in November 2007, officers of the former responsible entity caused the Premium Income Fund to transfer \$130 million to MFS Administration Pty Ltd so that MFS Administration Pty Ltd could use those funds to pay financial obligations of other MFS Ltd subsidiaries, including \$103 million owed to Fortress Credit Corporation (Australia) Pty Ltd by MFS Castle Pty Ltd;
- in December 2007, officers of the former responsible entity caused the Premium Income Fund to transfer \$17.5 million to MFS Pacific Finance Ltd, a New Zealand registered company (now known as OPI Pacific Finance Ltd (Receivers and Managers Appointed)); and
- that in about January 2008, officers of the former responsible entity and the fund manager created and used false documents relating to the use of the \$147.5 million.

As a result of the funds being transferred, the proceedings allege that the Premium Income Fund suffered a loss of \$147.5 million.

The Fund is not a party to the ASIC proceedings.

OCTAVIAR ADMINISTRATION PTY LTD (IN LIQUIDATION) AND OPI PACIFIC FINANCE LIMITED (RECEIVERS AND MANAGERS APPOINTED) – SUPREME COURT OF QUEENSLAND PROCEEDING 5958/2008

This Claim was filed by Wellington Capital Limited on 24 June 2008 in relation to the drawdown of the finance facility with the Royal Bank of Scotland in November and December 2007. This proceeding remains current regardless of the proof of debt lodged and any other court proceedings which have commenced since that time.

PERPETUAL NOMINEES LIMITED AS CUSTODIAN FOR THE PREMIUM INCOME FUND V RYTELLE PTY LTD & ORS – VICTORIAN SUPREME COURT PROCEEDINGS

These proceedings are being heard in two stages. The first stage commences in the Victorian Supreme Court on 10 September 2012 whereby Justice Sifris will determine liability.

Perpetual Nominees Limited commenced legal proceedings against the guarantors of the loan to entities which borrowed funds for property and continues to operate the Forest Resort in order to benefit all Unitholders.

The defaulting borrower and guarantor have cross claimed against Perpetual Nominees Limited and ACN 101 634 146 Pty Ltd (formerly MFS Investment Management Limited).





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Financial Report

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30 June 2012

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These financial statements cover the Premium Income Fund as a consolidated entity.

The responsible entity of the Premium Income Fund is Wellington Capital Limited (ABN 45 114 248 458) and it holds Australian Financial Services Licence No. 291562. The responsible entity's registered office is Level 22, 307 Queen Street, Brisbane, Queensland, 4000.



Corporate Directory

RESPONSIBLE ENTITY	Wellington Capital Limited
DIRECTORS	Ms J J Hutson, B.Comm., LL.B, FAIM. Mr S R Pitt, CPA, MAICD Mrs M Greaves, LL.B, ACIS, ACSA
SECRETARIES	Mrs M Greaves and Mrs S Haylock
REGISTERED OFFICE	Level 22 307 Queen Street Brisbane Qld 4000
SHARE REGISTRY	Armstrong Registry Services Limited GPO Box 897 Brisbane Qld 4001
AUDITORS	PricewaterhouseCoopers Australia GPO Box 150 Brisbane Qld 4001
SOLICITORS	McCullough Robertson GPO Box 1855 Brisbane Qld 4001 McLean Legal Pty Ltd GPO Box 2184 Brisbane QLD 4001 HWL Ebsworth GPO Box 3 Collins Street West VIC 8007
CUSTODIAN	Perpetual Nominees Limited Level 12 123 Pitt Street Sydney NSW 2000
STOCK EXCHANGE	National Stock Exchange Level 3 45 Exhibition Street Melbourne Vic 3000



Corporate Governance Statement

Unless otherwise disclosed below, the following corporate governance principles have been applied for the entire financial period.

The responsible entity

Wellington Capital Limited ('Manager') is the responsible entity of the Premium Income Fund and its controlled entities ('Fund'). Its role is to manage the Fund in the unitholders' best interests in accordance with the Fund's Constitution and the law.

The board of the responsible entity

The Board of Directors of the Manager will, in carrying out its function and exercising its powers, at all times fulfil its overriding responsibility to act honestly, conscientiously and fairly, in accordance with the law, in the interests of unitholders and those with whom the group has dealings.

To assist it in the execution of its responsibilities, the Board has established an Audit and Risk Management Committee and a Compliance Committee.

Composition of the Board

The Board must comprise members with a broad range of experience, expertise, skills and contacts relevant to the group and its business.

The Board of Directors currently comprises the following members:

Jenny Hutson (Chair and Managing Director)
Robert Pitt
Mary-Anne Greaves

Information about each present member of the Board of the Manager is set out in the Directors' Report.

Performance evaluation

A performance evaluation of the Board and all of its members is conducted annually. The performance of the Chair is reviewed and assessed by the other Directors. The performance of all other Directors is conducted by the Chair.

Trading policy

The Manager's policy regarding Directors and employees trading in securities of the Fund is determined by the Board of Directors. The policy restricts Directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the price of the securities.

Independent professional advice

Each Director has the right to seek independent legal or other professional advice, at the Manager's expense, to assist them in the performance of their duties. Prior approval must be obtained from the Chair but this may not be unreasonably withheld.

Key management personnel and remuneration

The Fund has no employees. All key management personnel are employed by and are remunerated by the Manager, Wellington Capital Limited. No amounts were paid by the Fund to key management personnel of the Manager during the financial year.

Compliance Committee

The Compliance Committee has a statutory obligation to monitor the extent to which the Manager complies with the Fund's compliance plan and the *Corporations Act 2001*. It meets quarterly, or more frequently if required, and is provided with detailed compliance reports from the Compliance Officer. It reports its findings to the Board of the Manager. The members of the Compliance Committee are as follows:

Ms M A Greaves
Mr T Outerbridge (external independent member)
Mr P Wibaux (external independent member)

Audit and Risk Management Committee

The Audit and Risk Management Committee has been established to advise the Board on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the group. It also gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the board. The committee has responsibility for reviewing the risk management framework and policies within the group and monitoring their implementation. The members of the Audit and Risk Management Committee are J J Hutson and S R Pitt.

Non-audit services

Before arranging for the provision of non-audit services, the Directors satisfy themselves that the provision of these services by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.



Directors' Report

The Directors of Wellington Capital Limited, the responsible entity of the Premium Income Fund, present their report together with the financial statements of the Premium Income Fund and its controlled entities ('the Fund'), for the year ended 30 June 2012.

Responsible entity

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

Principal activities

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

The Funds' principal activity for the year was the investment of unitholders' funds in equities, debt instruments, cash and mortgage loans.

The Fund did not have any employees during the year.

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

Directors

The names of the Directors of Wellington Capital Limited at any time during or since the end of the year are:

J J Hutson
S R Pitt
M Greaves

The Directors in office at the date of this report, together with their qualifications, experience and special responsibilities are:

J. J. Hutson, B.Comm, LL.B, FAIM., Age 44

Ms Hutson was appointed a Director in June 2006. She is a member of the audit and risk management committee. Ms Hutson is founder and Managing Director of Wellington Capital Limited, which is both a fund manager and corporate advisory company with a finance and property focus. Ms Hutson leads the corporate advisory business, which has acted as corporate adviser on a wide range of significant projects in the last 6 years. She has extensive experience in advising on complex corporate issues including capital raising, mergers and acquisitions and debt restructures, and has acted as corporate adviser to the boards of various listed and unlisted fund managers. Ms Hutson has a comprehensive understanding of the regulatory and commercial considerations as a corporate adviser and fund manager.

R. Pitt, CPA, MAICD, Age 68

Mr Pitt was appointed a Director in May 2005. He is also a member of the audit and risk management committee. Mr Pitt is a Certified Practising Accountant. He has held senior operational and financial management positions with major corporations over many years and has a strong background in general and financial management, including balance sheet risk management.

M. Greaves. LL.B., ACIS, ACSA, Age 47

Mrs Greaves was appointed a Director in May 2008. She has extensive experience in property based capital raisings including the listing of public companies on various stock exchanges including ASX and NSX. Ms Greaves is a lawyer and has a particular focus in the property and finance industries. She has more than 17 years of experience in finance and property in various roles with Bendigo Bank Limited and Northern Building Society Limited. Ms Greaves has a strong interest in the area of corporate governance. She is a Chartered Secretary and is an Associate of Chartered Secretaries Australia.

Company Secretary

The Company Secretaries are Mrs M Greaves and Mrs S Haylock.

Registered Office

The registered office of Wellington Capital Limited and the Fund is Level 22, 307 Queen Street, Brisbane, Queensland, 4000.

Review and results of operations

The value and recoverability of the Fund's assets during the previous financial years has been significantly impacted, this continued during the current financial period. The Fund has become mortgagee in possession of the underlying security properties in the mortgage loan asset class, as borrowers have not met the repayment requirements stipulated by their finance facilities with the Fund.



Directors' Report (continued)

A change in market conditions on some individual assets within the asset backed securities, managed investment schemes and fixed interest securities has resulted in realisations.

It is the Directors' intention to continue to manage the asset portfolio and cash flows so as to maximise the return to unitholders.

The primary assets of the Fund are loans made to borrowers. Where the borrowers have defaulted the Fund has taken steps to secure the underlying security and become mortgagee-in-possession through Perpetual Nominees Limited. The value of the underlying security property has been assessed with reference to contracts of sale, independent valuations and assessments of the properties in comparison to similar properties. Contracts of sale provide the best evidence of value. For those properties that have not been sold, formal external valuations provide the next best comparison. In the last three months the Manager has instructed recognised independent valuers to perform valuations on eleven of the properties over which the Fund has mortgage security.

The Directors believe the Fund is a going concern and the financial statements have been prepared on that basis.

Consolidated Results

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

	30 June 2012 \$000's	30 June 2011 \$000's
Net operating profit/(loss) attributable to unitholders	(94,819)	(31,101)
Cash payments to unitholders during the year	20,763	15,101
Cash payments - cents per unit.	2.50	2.0

Cash payments to unitholders during the year totalled \$20.763 million (2011:\$15.101 million) and were paid as follows:

- 1.00 cent per unit paid on 14 December 2011.
- 1.50 cents per unit paid on 16 March 2012.

The Fund had total net assets valued at \$110.49 million as at 30 June 2012 (2011 - \$226.07 million). The basis for valuation of the Fund's assets is contained in Note 2(d) of the financial statements.

Significant change in the state of affairs

The Fund continued to be invested primarily in equity, debt instruments and mortgage loans during the year ended 30 June 2012.

The asset allocation of the Fund is as follows:

	Year Ended	
	30 June 2012	30 June 2011
Mortgage Loans	50.4%	65.8%
Managed Investment Schemes	3.4%	1.8%
Alternative Investments	32.5%	25.3%
Cash Investments	13.6%	5.3%
Fixed Interest Investments	0.1%	1.8%



Directors' Report (continued)

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.

In the opinion of the Directors, other than the matters disclosed in this report, there were no other significant changes in the state of affairs of the Fund during the financial year.

Matters subsequent to the end of financial year

On 23 August 2012, the liquidator of Octaviar Administration Pty Ltd – Bentleys Corporate Advisory – advised of and paid a first interim dividend of \$3,018,749.88 as a consequence of the liquidator admitting the proof of debt as to \$137.2 million.

Since 30 June 2012 there has not been any matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Fund.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Managing Director of the responsible entity.

Interests of the responsible entity

Neither the responsible entity, nor any of its associates, held any interests in the Fund as at 30 June 2012 other than set out in Note 19.

Indemnity and insurance of officers

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 Capital Limited or the auditors of the Fund. So long as the officers of Wellington Capital 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.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests of the Fund by the responsible entity or its associates

No fees were paid out of Fund property to the Directors of the responsible entity during the year.

Fees paid to the responsible entity and its associates out of Fund property during the year are disclosed in Note 19 of the Financial Statements.

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 19 of the Financial Statements.

In accordance with the Constitution the responsible entity has charged management fees since 14 December 2011 totalling \$912,224 (plus GST) (2011:nil) representing 0.7% per annum of the funds under management. Management fees paid to the responsible entity are limited to two years to 14 December 2013.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in the Consolidated Statement of Changes in Equity of the Financial Statements.

The value of the Fund's assets and liabilities is disclosed on the Consolidated Balance Sheet and derived using the basis set out in Note 2 of the Financial Statements.



Directors' Report (continued)

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.


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. Amounts in the Directors' 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 8.

This report is made in accordance with a resolution of the Directors.



Jennifer Hutson

Director

Brisbane

5 September 2012



Mary-Anne Greaves

Director





Auditor's Independence Declaration

As lead auditor for the audit of Premium Income Fund, for the financial year ended 30 June 2012, 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 to Premium Income Fund during the period.

A handwritten signature in black ink, appearing to read 'Robert Hubbard'.

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
5 September 2012

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

		Year Ended	
	Note	30 June 2012 \$000's	30 June 2011 *Restated \$000's
REVENUE FROM CONTINUING OPERATIONS			
Development and construction revenue	3	3,399	14,096
Interest income	4	2,973	3,927
Revenue from continuing operations		6,372	18,023
INVESTMENT INCOME			
Net gain/(loss) on financial instruments designated as at fair value through profit or loss		4,179	87
Net loss on mortgage loans	14	(71,790)	(22,321)
Net loss on other financial assets		(28,696)	(5,258)
Investment income	5	22	64
Other operating income	6	3,200	1,303
Total revenues and investment loss		(86,713)	(8,102)
EXPENSES			
Cost of development construction and property sales	7	4,023	16,574
Impairment of inventory		-	4,500
Responsible entity's fees	19	961	-
Custodian and registry fees		525	535
Fees and commission expense		220	62
Auditor's remuneration	8	216	207
Finance costs		419	84
Professional and consulting fees		1,163	522
Insurance		180	102
Administration expenses		399	413
Total operating expenses		8,106	22,999
Operating loss		(94,819)	(31,101)



Consolidated Statement of Comprehensive Income (continued)

	Note	Year Ended	
		30 June 2012 \$000's	30 June 2011 *Restated \$000's
Other Comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(94,819)	(31,101)
Profit attributable to:			
Unitholders		(94,555)	(30,476)
Non-controlling interest		(264)	(625)
		(94,819)	(31,101)
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic earnings/(loss) per unit	25	(0.11)	(0.04)
Diluted earnings/(loss) per unit	25	(0.11)	(0.04)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

See Note 2(a) for details regarding the restatement.



Consolidated Balance Sheet

		Year Ended	
	Note	30 June 2012 \$000's	30 June 2011 *Restated \$000's
ASSETS			
Cash and cash equivalents	20	12,071	11,174
Other financial assets	10	21,368	52,124
Receivables	11	5,149	4,977
Financial assets held at fair value through profit or loss	12	4,606	9,504
Inventory	13	19,826	22,441
Mortgage loans	14	63,909	135,722
TOTAL ASSETS		126,929	235,942
LIABILITIES			
Payables	15	6,023	8,515
Bank loans	16	10,420	1,359
TOTAL LIABILITIES		16,443	9,874
NET ASSETS		110,486	226,068
EQUITY			
Contributed equity		306,026	326,789
Non-controlling interest	17	6,093	2,802
Retained losses		(201,633)	(103,523)
TOTAL EQUITY		110,486	226,068

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Capital risk management

The Fund considers its contributed equity as capital. There are no externally imposed capital requirements.

See Note 2(a) for details regarding the restatement.



Consolidated Statement of Changes in Equity

	Note	Contributed Equity	Retained Losses	Non- controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
2012					
BALANCE AT BEGINNING OF THE YEAR		326,789	(103,523)	2,802	226,068
Equity raised		-	-	-	-
Net profit/(loss) for the period		-	(94,555)	(264)	(94,819)
Transactions with non-controlling interest	17	-	(3,555)	3,555	-
Cash payments to unitholders	9	(20,763)	-	-	(20,763)
Distributions paid to non-controlling interest to date		-	-	-	-
BALANCE AT THE END OF THE YEAR		306,026	(201,633)	6,093	110,486
2011					
*Restated					
	Note	Contributed Equity	Retained Losses	Non- controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
BALANCE AT BEGINNING OF THE YEAR		334,340	(73,521)	4,483	265,302
Restated adjustment		-	474	242	716
Subtotal		334,340	(73,407)	4,725	266,018
Equity raised		7,550	-	-	7,550
Net profit/(loss) for the period		-	(30,476)	(625)	(31,101)
Cash payments to unitholders	9	(15,101)	-	-	(15,101)
Distributions paid to non-controlling interest to date		-	-	(1,298)	(1,298)
BALANCE AT THE END OF THE YEAR		326,789	(103,523)	2,802	226,068

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes. See Note 2(a) for details regarding the restatement.



Consolidated Statement of Cash Flow

	Note	Year Ended	
		30 June 2012 \$000's	30 June 2011 *Restated \$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees, investment and other income received		5,715	5,289
Gross proceeds from property sales		5,172	14,486
Payments to suppliers in relation to properties sold		(1,510)	(13,749)
Interest paid		(525)	(85)
Payments to suppliers		(6,654)	(1,942)
Net cash inflow/(outflow) from operating activities	20	2,198	3,999
CASH FLOWS FROM INVESTING ACTIVITIES			
Mortgage loan advances		(14,371)	(1,389)
Mortgage loan repayments		2,716	5,004
Other investments purchased		-	(384)
Other investments realised		22,075	-
Net cash inflow/(outflow) from investing activities		10,420	3,231
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity raised		-	7,550
Units redeemed		-	(957)
Cash payments to unitholders	9	(20,763)	(15,101)
Distributions paid to non-controlling interest		-	(1,298)
Increase in borrowings		9,042	1,359
Net cash inflow/(outflow) from financing activities		(11,721)	(8,447)
Net increase/(decrease) in cash and cash equivalents		897	(1,217)
Cash and cash equivalents at beginning of year		11,174	12,391
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	12,071	11,174

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes. See Note 2(a) for details regarding the restatement.



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Notes to the financial statements

NOTE 1. CORPORATE INFORMATION

These financial statements cover the Premium Income Fund (the 'Fund') as a consolidated entity. The Fund was constituted on 22 December 1999.

The responsible entity of the Premium Income Fund is Wellington Capital 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 5 September 2012. The Directors of the responsible entity have the power to amend and reissue the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for profit unit trust for the purposes of preparing the financial statements.

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

The Balance Sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial report of the Fund also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Fund comprising the parent entity and its controlled entities. A list of the controlled entities is contained in Note 19. All controlled entities have a 30 June year end.

All inter-company balances and transactions between entities in the Fund, including any unrealised profits and losses, have been eliminated on consolidation.

A controlled entity is an entity over which the Fund has the power to control the financial and operating policies so as to obtain benefits from its activities.

Correction of error

An investment in an entity previously incorrectly classified as 'Financial assets held at fair value through profit or loss' when it should have been consolidated as a subsidiary. As a result the financial statements for the comparative period have been restated to include the effects of the consolidation. The effect on net assets at 30 June 2011 is an increase of \$1.09m from \$224.978m to \$226.068m. There is no effect on earnings per unit. There is an immaterial effect on the opening balance sheet of the prior comparative period. As such, a third balance sheet has not been presented.

(b) Financial instruments

(i) Classification

The Fund's investments are classified as follows:

- Financial instruments designated at fair value through profit and loss upon initial recognition. These include financial assets that are held for trading purposes and which may be sold. These are fixed interest securities and equity securities.



Notes to the Financial Statements (Continued)

Financial assets and financial liabilities designated at fair value through profit and 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 Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information.

- **Mortgage Loans and Other Financial Assets**

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 receivables.

(ii) *Recognition/derecognition*

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

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

Investments are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the Consolidated Statement of Comprehensive Income.

(iii) *Measurement*

Financial instruments are held at fair value through profit or loss, except as follows:

Mortgage loans

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance date to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income 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 Statement of Comprehensive Income.

Other financial assets

Included in 'Other financial assets' are asset backed investments (investments that are secured debt facilities of a commercial loan portfolio) 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 Sheet date to determine whether there is objective evidence of impairment. If any such indication of impairment exists, an impairment loss is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income.

(iv) *Fair value in an active market*

Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

(v) *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.



Notes to the Financial Statements (Continued)

(vi) *Bank loans*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

(c) **Going concern**

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

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the classification of liabilities that might be necessary should the Fund not continue as a going concern.

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 obligations 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.

(d) **Critical accounting estimate – uncertainty around collateral for Mortgage Loans and Other Financial Assets**

The primary assets of the Fund are loans made to borrowers. Security for the loans include registered mortgages over real property, mortgages over other company assets and directors guarantees. Where a borrower has defaulted steps have been taken to secure the underlying security and become mortgagee-in-possession. The value of the underlying security property has been assessed with reference to contracts of sale and independent valuations and assessments of the properties in comparison to similar properties. Contracts of sale provide the best evidence of a value.

For those properties that have not been sold, formal external valuations provide the next best comparison. The Manager of the Fund has instructed recognised independent valuers from its panel of valuers to perform independent valuations on eleven security properties. The independent valuations provide a reference for the effective interest calculations undertaken to determine the carrying value of the mortgage loans. Where the carrying value of an asset has involved an impairment the loss is recognised in the Statement of Comprehensive Income.

The global market for many types of real estate has been severely affected by the recent volatility in global financial markets. The lower levels of liquidity and volatility in the banking sector have resulted in a general weakening of market sentiment towards real estate and the number of real estate transactions has reduced significantly.

The fair value of underlying security for mortgage loans in default, or mortgagee –n-possession, is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A 'willing seller' is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

The current lack of comparable market evidence relating to pricing assumptions and market drivers means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be significantly prolonged.

The fair values of the underlying securities for mortgage loans in default, or mortgagee-in-possession, have been adjusted to reflect market conditions at the end of the reporting period. When previously calculating recoverable amount, consideration was inclusive of all security held. The carrying value of mortgage loan assets has been determined with reference to the independent valuations and adjusted to reflect the time it is anticipated it will take to sell the security assets. No value has been assigned to any collateral security held. Whilst this represents the best estimates of fair values as at reporting date, the current market uncertainty means that if a property is sold, the price achieved may differ from the most recent valuation or the fair value recorded in the financial statements or the time taken to sell it may be longer than assumed.

(e) **Distribution policy**

Distributions paid by the Fund are based on the availability of surplus cash and approved by the Directors after careful consideration of the Fund's future cash needs to meet its current commitments.

(f) **Contributed equity**

As stipulated in 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. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund.



Notes to the Financial Statements (Continued)

(g) Cash and cash equivalents

For the purpose of presentation and the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less from the date of acquisition, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from investing activities.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Fund recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Fund and specific criteria have been met for each of the Fund's activities as described below. The Fund bases its estimates on historical results, taking into consideration the specific of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Development and Construction Revenue

Revenue is recognised when the risks and rewards have been transferred and the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the units or apartments sold. Due to the nature of the agreements entered into by the Fund, this is considered to occur on settlement.

(ii) Interest income

Interest ceases to be accrued on non-performing loans when the Directors consider that recovery of the full amount of principal and interest is unlikely. Interest income on performing loans is recognised in the Consolidated Statement of Comprehensive Income 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.

Interest income is recognised in the profit and loss for all financial instruments that are not held at fair value through profit or loss using the effective interest rate method. Interest income on assets held at fair value through profit and loss is included in the net gain/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2.

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.

(iii) Investment Income

Distributions from managed investment schemes are recognised on a cash basis and is accounted for in the period received.

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 investment assets is recognised in the Statement of Comprehensive Income 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).



Notes to the Financial Statements (Continued)

(iv) Rental income

Rental income is recognised in the period in which it is earned.

(i) Expenses

All expenses are recognised in profit and loss on an accruals basis. Construction expenses include directly attributable expenses for developments and inventory items.

(j) Income Tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund. The benefit of imputation credits and foreign tax paid, if any, are passed on to unitholders where appropriate.

(k) Inventory

Inventory consists of finished apartments and a hotel that are actively being marketed for sale and is valued at the lower of cost and net realisable value. Cost comprises direct material, direct labour and, as appropriate, a proportion of variable and fixed overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

(l) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of a reporting period.

(m) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services have been passed on to the Fund. For the Premium Income Fund expenses have been recognised in the Consolidated Statement of Comprehensive Income inclusive of GST. For the controlled-entity, expenses have been recognised in the Consolidated Statement of Comprehensive Income net of GST. Cash flows relating to GST are included in the Consolidated Statement of Cash Flows on a gross basis.

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance has been identified as the Managing Director of the responsible entity.

(o) Controlled entities

A controlled entity is an entity over which the Fund has the power to control the financial and operating policies so as to obtain benefits from its activities. The Premium Income Fund has two controlled entities.

The first, the parent entity has a 57.5% (2011:90.0%) interest at period end in a trust which is resident in Australia and the principal activity of which is the development of a property for sale.

The second, the parent entity has a 91.8% (2011: 91.8%) interest at period end in a trust which is resident in Australia and the principal activity is the development of property for sale.

The financial statements incorporate the assets, liabilities and results of the controlled entities.

(p) Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that class order, unless otherwise indicated.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations are set out below:

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australia Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*).



Notes to the Financial Statements (Continued)

AASB 9 Financial Instruments addresses the classification, and measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect application of the new standard to have a significant impact on the Fund's financial statements.

*In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Fund does not intend to adopt the new standard before the operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Fund has public accountability as it is listed on the NSX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Fund will apply the amendment from 1 July 2012. The Manager is currently evaluating the impact of the amendment.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do



Notes to the Financial Statements (Continued)

not share joint control. As the Fund is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Fund will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Fund's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. The Fund is still assessing the impact of these amendments.

The Fund does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Fund does not expect that any adjustments will be necessary as the result of applying the revised rules.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTE 3. DEVELOPMENT AND CONSTRUCTION REVENUE

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Property sales	3,399	14,096

The Controlled Entity completed the development and construction of the Harbour Street Wollongong project in the 2010 financial year. Of the Chifley residences only two remain unsold.



Notes to the Financial Statements (Continued)

NOTE 4. INTEREST INCOME

	YEAR ENDED	
	30 June 2012	30 June 2011
	\$000's	\$000's
Cash and cash equivalents	485	267
Mortgage loans	1,468	1,683
Other financial assets	1,020	1,977
	2,973	3,927

Interest is recognised on receipt of cash and in accordance with the accounting policy in Note 2(h).

A number of the above asset classes are non-performing and as such the Fund is not deriving substantial interest income.

NOTE 5. INVESTMENT INCOME

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Equity securities	22	64

Interest is recognised in accordance with the accounting policy in Note 2(h).

NOTE 6. OTHER OPERATING INCOME

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Rent income	1,193	1,299
Sundry income	33	4
GST Refund	1,974	-
	3,200	1,303

Application of the Goods & Services Tax legislation as it relates to the Fund is complex. During the year, the Manager engaged an external advisory firm to complete a review on unclaimed GST credits. Upon completion of their review they provided formal advice leading to the Fund recouping \$1.974m in unclaimed GST credits.



Notes to the Financial Statements (Continued)

NOTE 7. COST OF DEVELOPMENT, CONSTRUCTION AND PROPERTY SALES

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Marketing and selling costs	256	511
Development and project management costs	3,634	15,291
Government charges and fees	133	772
	4,023	16,574

NOTE 8. AUDITORS' REMUNERATION

	Year Ended	
	30 June 2012 \$	30 June 2011 \$
<i>Audit services:</i>		
Audit & review services	185,233	142,840
Compliance plan audit services	15,810	15,800
<i>Non-audit services:</i>		
Tax services	14,560	48,685
Total remuneration	215,603	207,325

PricewaterhouseCoopers Australia perform the Fund audit and review.

Crowe Horwath perform the Compliance Audit.

KPMG and Johnston Rorke provided tax services.

NOTE 9. PAYMENTS TO UNITHOLDERS

The Fund made two payments to unitholders:

- o 1.00 cent per unit paid on 14 December 2011.
- o 1.50 cents per unit paid on 16 March 2012.

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Payments paid to unitholders	20,763	15,101



Notes to the Financial Statements (Continued)

NOTE 10. OTHER FINANCIAL ASSETS

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Asset backed investments	66,951	69,011
Provision for impairment	(45,583)	(16,887)
Written down value of asset backed investments	21,368	52,124

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Reconciliation of Provision for Impairment – Other Financial Assets		
Balance at the beginning of the financial year	16,887	11,629
Impairment recognised during the year	29,113	5,483
Impairment provision reversed during the year	(417)	(225)
Balance at the end of the financial year	45,583	16,887

The Fund principally invests in two forms of asset backed investments:

- Secured and unsecured debt facilities; and
- Direct equity investments.

Asset backed investments are generally limited to investments that are secured debt facilities of a commercial loan portfolio. Security held is other than registered first mortgage over real property. Where circumstances have permitted, the Manager has called on its security and in some circumstances commenced legal action for recovery.

NOTE 11. RECEIVABLES

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Other debtors	5,052	4,965
GST receivable	97	12
	5,149	4,977



Notes to the Financial Statements (Continued)

NOTE 12. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Equity securities	4,512	5,845
Fixed interest securities	94	3,659
	4,606	9,504

NOTE 13. INVENTORY

Inventory consists of finished goods that is actively being marketed for sale and is valued at the lower of cost and net realisable value.

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Finished goods valued at lower of cost and net realisable value	19,826	22,441

Inventory consists of the hotel and unsold apartments at Harbour Street, Wollongong. The classification of inventory is consistent with previous periods and the intention is to sell these properties in the ordinary course of business in the near future. The hotel carrying value is based on an independent valuation from Landmark White in August 2011.

NOTE 14. MORTGAGE LOANS

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Mortgage loans	212,863	212,885
Provision for impairment	(148,954)	(77,163)
Written down value of mortgage loans	63,909	135,722

Mortgage loans are secured by registered mortgages. The recoverability of mortgage loans has previously been unfavourably affected by the tightening in global credit markets and now a general decline in property valuations across Australia. As loans default, the interest charges cause the loan balance to increase beyond the value of the secured property. Interest is not recorded on non-performing loans in accordance with the accounting policy at Note 2(h).

In assessing the recoverable amount of each mortgage loan, the Directors have considered the following evidence wherever it is available:

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



Notes to the Financial Statements (Continued)

The estimates prepared by the Directors are considered having regard to the critical accounting estimate Note 2(d).

Of the Mortgage Loans outstanding, \$63.909m (2011:\$135.722m) was considered to be non-performing. The Fund is mortgagee-in-possession of \$63.909m (2011:\$129.367m) as at year end.

The following table, which includes the Harbour Street, Wollongong hotel and unsold apartments, with a carrying value as per Note 13 Inventory, segments the status of the mortgage loan portfolio and inventory and the carrying-values of the assets:

\$'000	Unconditional Contracts	Conditional Contracts	Independently valued and marketed for sale	Independently valued and prepared for sale	Marketed for sale	Total
Gross value	-	13,600	39,410	9,068	28,453	90,531
Effective interest rate discount	-	-	(3,855)	(1,568)	(1,373)	(6,796)
Carrying Value	-	13,600	35,555	7,500	27,080	83,735
percentage	-	16.3%	42.5%	8.9%	32.3%	100%

Unconditional contracts

The security property has been sold, the contract is unconditional at the date of this report, but settlement had not occurred as at balance date.

Conditional contracts

The security property has been sold at the date of this report, but the contract is subject to various conditions such as due diligence and financing which must be satisfied or waived by the purchaser. The contracts have specified the time period allowed for the conditions to be met however this may be extended if in the best interests of the Fund. Where the contract on the underlying security is lower, the loan has been impaired to the contract amount. Where the contract on the underlying security is higher any previous impairment on the loan has not been reversed. However, there can be no certainty that the conditions will be satisfied and the contract will complete.

Independently valued and marketed for sale

The security property has been independently valued and is presently being marketed for sale by independent marketing agents.

Independently valued and prepared for sale

The security property has been independently valued and is being prepared to be marketed for sale.

Marketed for sale

The security property is presently being actively marketed for sale by independent marketing agents. In these instances the carrying value has been assessed by the Directors based on reference to available market information. While this represents the best estimates of the recoverable amount of the loan, the current market uncertainty means that when the property is sold, the future price achieved may be materially different. The final realization value will be a product of the negotiations, and there is no certainty that the underlying asset will ultimately be sold for these amounts.

For completed residential apartments currently being sold on an individual apartment basis, the loan carrying value has been determined based on average sale prices achieved for similar apartments in the same development.

Effective interest rate discount

Discounts the carrying amount of the assets by the present value of estimated future cash flows using the assets original effective interest rate.



Notes to the Financial Statements (Continued)

Reconciliation of Provision for Impairment – Mortgage Loans

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Balance at the beginning of the financial year	77,163	55,436
Provision for impairment recognised during the year	73,569	22,321
Assets realised during the year	(1,778)	(594)
Balance at the end of the financial year	148,954	77,163

NOTE 15. PAYABLES

	Year Ended	
	30 June 2012	30 June 2011
	\$000's	\$000's
Trade payables	4,457	7,118
Accrued expenses	1,122	1,215
GST payable	444	182
	6,023	8,515

NOTE 16. BANK LOANS

During the period a Controlled entity obtained a non-recourse loan. Proceeds of the loan were used to redeem units from the Premium Income Fund in the Controlled entity. The loan is secured by a mortgage over the Chifley Hotel asset and collateral security from the Non-Controlling interest. There is no recourse upon, or provided by, the Premium Income Fund. The loan term is 3 years and has 2.5 years remaining.

	30 June 2012	30 June 2011
	\$000's	\$000's
Bank loan – Chifley Hotel	9,166	-

Another Controlled entity has a non-recourse agribusiness loan for the development and construction of farm sheds in Mareeba. The loan is secured by a mortgage over the property. There is no recourse upon, or provided by, the Premium Income Fund. The loan had an initial 10 year term with 8.0 years remaining. The loan is a principal and interest reducing facility.

	30 June 2012	30 June 2011
	\$000's	\$000's
Bank loan	1,254	1,359
Total – Bank Loans	10,420	1,359



Notes to the Financial Statements (Continued)

NOTE 17. NON-CONTROLLING INTEREST

The Premium Income Fund has a 57.5% controlling interest in the entity used in completion of the development at Harbour Street, Wollongong. The non-controlling interest represents the equity introduced by the non-controlling interest in order to complete the project less any share of losses incurred.

The Premium Income Fund has a 91.8% controlling interest in an entity that owns a property and packaging sheds in Mareeba. The non-controlling interest is the user of the property and sheds.

Details of the Fund's controlling interest is as follows:

Name of entity	Country of Incorporation	Class of unit	Unitholding	
			30 June 2012	30 June 2011
Harbour Street Development Trust	Australia	"A"	57.5%	90.0%
Dole Property Trust	Australia	Ordinary	91.8%	91.8%

TRANSACTIONS WITH NON-CONTROLLING INTEREST

During the period a Controlled entity obtained a non-recourse loan to assist the Non-Controlling interest of that entity acquire from the Premium Income Fund 42.5% of the Chifley Hotel, 60-62 Harbour Street, Wollongong. Proceeds of the loan were used to redeem units from the Premium Income Fund in the Controlled entity.

Another Controlled entity has a non-recourse agribusiness loan for the development and construction of farm sheds in Mareeba. The loan is secured by a mortgage over the property. There is no recourse upon, or provided by, the Premium Income Fund. The loan had an initial 10 year term with 8.0 years remaining. The loan is a principal and interest reducing facility.

Refer also Note 16.

PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Premium Income Fund, has been prepared on the same basis as the consolidated financial statements, except as outlined below.

(a) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Premium Income Fund. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Financial guarantees

The parent entity has not provided financial guarantees in relation to the loans and payables of the subsidiaries.



Notes to the Financial Statements (Continued)

The individual financial statements for the parent entity show the following aggregate amounts:

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Balance Sheet		
Total assets	113,677	231,613
Total liabilities	5,729	8,347
Net Assets	107,948	223,266
Equity		
Contributed equity	326,789	334,340
Placement	-	7,550
Distributions paid	(20,763)	(15,101)
Retained losses	(198,078)	(103,523)
	107,948	223,266
Total Comprehensive Loss for the year	(94,555)	(30,476)

NOTE 18. FINANCIAL RISK MANAGEMENT

The Fund is exposed to credit risk, interest rate risk, market price 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.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange or other price risks and ratings analysis for credit risk.

Credit risk

Credit risk is the risk that one or more counter-parties will fail to perform their contractual obligations, either in whole or in part, under a contract which will lead to a financial loss to the Fund. The main credit risk for the Fund arises from its investment in debt securities such as mortgage loans and asset backed investments.

As set out in the table below which shows the ageing analysis of past due loans, \$63.9 million (2011: \$131.4 million) of the mortgage loans are impaired and non-performing, whilst \$nil (2011: \$4.4 million) is non-performing but not impaired. The Directors continue to actively manage the loan portfolio in order to maximise the amounts recoverable from the underlying collateral held by the Fund. This involves periodic review of the risk profile and status of each loan based on internal and external information available to the Directors in order to assess the impact on the realisable value of the collateral held by the Fund.



Notes to the Financial Statements (Continued)

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Maximum exposure to credit risk:		
Mortgage loans renegotiated	-	-
Non-performing mortgage loans with no impairment	-	4,412
Non-performing mortgage loans with impairment	63,909	131,360
Total maximum exposure to credit risk	63,909	135,722
Collateral held	63,909	135,722
Collateral held as Mortgagee in Possession	63,909	129,400

Collateral held comprises, first or second mortgages over property, charges and personal guarantees from borrowers. The carrying value of mortgage loans has been written down to fair value valuation after consideration of the independent valuations and has not considered further any other potential value derived from other forms of collateral security.

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Ageing Analysis:		
Non-performing mortgage loans with no impairment		
Past due 1-3 months	-	-
Past due 4-6 months	-	-
Past due greater than 6 months	-	4,412
	-	4,412
Non-performing mortgage loans with impairment		
Past due 1-3 months	-	-
Past due 4-6 months	-	-
<i>Past due greater than 6 months</i>	63,909	131,360
	63,909	131,360

All of the above mortgage loans are past due and contractually payable within 12 months. The ultimate timing as to the realisation of collateral will be made so as to maximise the returns to unitholders and may occur after 12 months.

In addition to mortgage loans, the Fund holds other financial assets of \$21.4m (2011 \$52m). These are secured with the exception of \$4m of unsecured investments. As such, the credit risk to the Fund is represented by the written down value of \$21.4m.



Notes to the Financial Statements (Continued)

Interest rate risk

The fund has no interest-bearing loans or liabilities and the only exposure it has to interest rate risk arises from cash equivalents with variable interest rates. If interest rates had changed by +/- 250 basis points from the year end rates, net profit would have varied by +/- \$0.01m respectively.

At balance date, the Fund's exposure to interest rate risk and the weighted average effective interest rate is set out in the following table.

2012	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non- interest bearing (\$000's)	Total (\$000's)
Financial Assets					
Cash and cash equivalents	4.34	12,071	-	-	12,071
Asset backed investments	-	-	-	21,368	21,368
Trade & other receivables	-	-	-	5,149	5,149
Equity securities	-	4,512	-	-	4,512
Fixed interest securities	-	-	94	-	94
Mortgage loans	Note 1	-	63,909	-	63,909
Total Assets	-	16,583	64,003	26,517	107,103
Financial Liabilities					
Trade & other payables	-	-	-	6,023	6,023
Bank loans	4.90	1,254	9,166	-	10,420
Total Liabilities	-	1,254	9,166	6,023	16,443

Note 1 - Mortgage loans continue to attract interest but, for accounting purposes, interest is not brought to account as the loans are not performing. (refer to Note 2(h)).

2011	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non- interest bearing (\$000's)	Total (\$000's)
Financial Assets					
Cash and cash equivalents	3.25	11,174	-	-	11,174
Asset backed investments	10.8	18,000	-	34,124	52,124
Trade & other receivables	-	-	-	4,977	4,977
Equity securities	1.53	3,748	-	2,097	5,845
Fixed interest securities	10.3	-	3,659	-	3,659
Mortgage loans	Note 1	-	135,722	-	135,722
Total Assets	-	32,922	139,381	41,198	213,501
Financial Liabilities					
Trade & other payables	-	-	-	8,515	8,515
Bank loans	-	1,359	-	-	1,359
Total Liabilities	-	1,359	-	8,515	9,874



Notes to the Financial Statements (Continued)

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 activities are transacted in accordance with mandates and overall investment strategy. Market price risk analysis is conducted regularly on a total portfolio basis. The Fund has a portfolio of equity securities and the price is managed as with other asset portfolios. The Fund has equity and fixed interest securities that rely on market quoted prices to determine their fair value. These investments have already been heavily impaired to their market value and any future downward price movements will have only a minor impact on the Fund.

The Fund has no exposure to foreign currency risk.

Liquidity and cash flow risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

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 Fund's financial liabilities into relevant maturity groupings based on the remaining period to contractual maturity.

2012	Less than 1 month \$000's	1-6 months \$000's	6-12 months \$000's	1-3 years \$000's	Total \$000's
Trade & other payables	2,743	1,151	2,129	-	6,023
Bank loans	-	-	-	10,420	10,420
	2,743	1,151	2,129	10,420	16,443

2011	Less than 1 month \$000's	1-6 months \$000's	6-12 months \$000's	1-3 years \$000's	Total \$000's
Trade & other payables	927	2,980	4,608	-	8,515
Bank loans	-	-	-	1,359	1,359
	927	2,980	4,608	1,359	9,874

Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.



Notes to the Financial Statements (Continued)

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012.

2012	Level 1 \$000's	Level 2 \$000's	Level 3 \$000's	Total \$000's
Financial Assets				
Financial Assets designated at fair value through profit or loss				
- Equity securities	-	4,512	-	4,512
- Fixed interest securities	94	-	-	94
Total	94	4,512	-	4,606

2011	Level 1 \$000's	Level 2 \$000's	Level 3 \$000's	Total \$000's
Financial Assets				
Financial Assets designated at fair value through profit or loss				
- Equity securities	-	3,748	2,097	5,845
- Fixed interest securities	3,659	-	-	3,659
Total	3,659	3,748	2,097	9,504

Mortgage loans and asset backed investments are at amortised cost less impairment which materially represents the fair value of the receivables.

NOTE 19. RELATED PARTY TRANSACTIONS

Responsible entity

The responsible entity of the Premium income Fund is Wellington Capital Limited which was appointed on 15 October 2008.

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 are defined in *AASB 124: Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the Fund. The Fund has no employees and as such has no direct key management personnel. The Manager, Wellington Capital Limited, fulfils the role of key management personnel. There are no other key management personnel.

Controlled Entity

Refer also to Note 17. A controlled entity is an entity over which the Fund has the power to control the financial and operating policies so as to obtain benefits from its activities. The Fund has two controlled entities.

The first, the parent has a 57.5% (2011: 90%) interest at period end in a trust which is resident in Australia and the principal activity of which is the development of a property for sale.



Notes to the Financial Statements (Continued)

The second, the parent has a 91.8% (2011: 91.8%) interest at period end in a trust which is resident in Australia and the principal activity of which is the development of a property for sale.

The Fund has transacted with the Controlled entities by way of reimbursing for costs properly incurred and charged to the Fund. All transactions have been on a commercial arms-length basis.

Year Ended	
30 June 2012	30 June 2011
\$	\$

Responsible Entity's Fees and Other Transactions

Management fees paid to the responsible entity.

- Wellington Capital Limited from the Fund	912,224	-
- Wellington Capital Limited from Dole	48,839	

Management fees are charged in accordance with the Fund's Constitution.

During the year the Responsible Entity incurred expenses on behalf of the Fund amounting to \$297,084 (2011:\$228,865) and for which the Responsible Entity is entitled to be reimbursed by the Fund in accordance with the Fund's Constitution. At 30 June 2012, \$nil (2011: \$nil) was owed to the Responsible Entity.

Related party Transactions

Armstrong Registry Services Limited, a company related to the responsible entity, provides registry services to the Fund.

Year Ended	
30 June 2012	30 June 2011
\$	\$
Registry fees paid to Armstrong Registry Services Limited	464,795
	455,400

As at 30 June 2012, \$nil (2011: \$nil) was owing to Armstrong Registry Services Limited.

Related party schemes' unitholdings

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

Year Ended 30 June 2012

	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 (\$)
Wholesale Premium Income Fund	38,021,281	36,697,749	4.4	-	1,323,532	927,548



Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2011

	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 (\$)
Wholesale Premium Income Fund	41,114,196	38,021,281	4.5	-	3,092,915	767,310

Units in the Wholesale Premium Income Fund are eligible to participate in a buyback offer for those units. The offer is open indefinitely and allows for a Wholesale Premium Income Fund unit to be bought back pursuant to the offer, and with units in the Premium Income Fund being offered as consideration on a one for one basis.

Key management personnel compensation

The Directors have not received any remuneration from the Fund during the financial year.

NOTE 20. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Year Ended	
	30 June 2012 \$000's	30 June 2011 \$000's
Net profit/(loss)	(94,819)	(31,101)
Net unrealised (gain)/loss on financial instruments designated as fair value through profit or loss	25,253	16,568
Impairment of inventory	-	4,500
Cost impairment on property sales	2,615	-
Net (gain)/loss on mortgage loans	71,813	10,924
Decrease/(increase) in receivables	(172)	344
(Decrease)/increase in payables	(2,492)	2,764
Net cash inflow/(outflow) from operating activities	2,198	3,999

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	12,071	11,174
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NOTE 21. 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. The Non-Controlling interest is a special purpose entity used for completion and sale of the Harbour Street, Wollongong project. 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.



Notes to the Financial Statements (Continued)

NOTE 22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 23 August 2012, the liquidator of Octaviar Administration Pty Ltd – Bentleys Corporate Advisory – advised of and paid a first interim dividend of \$3,018,749.88 as a consequence of the liquidator admitting the proof of debt as to \$137.2 million.

NOTE 23. OCTAVIAR LIMITED SUPPORT FACILITY

On 26 February 2008 the Fund exercised its rights under the Support Mechanism with Octaviar Limited to call funds to ensure that the Fund could meet any shortfall in the target distribution of the Fund and/or to meet any Fund expenses. Option Notices under the Octaviar Support Facility requesting \$50 million have been issued. Octaviar Limited was placed in liquidation on 6 September 2009. The Directors have previously assessed the likelihood of payment of the full \$50 million to be materially uncertain.

On 23 August 2012, the liquidator of Octaviar Administration Pty Ltd – Bentleys Corporate Advisory – advised of and paid a first interim dividend of \$3,018,749.88 as a consequence of the liquidator admitting the proof of debt as to \$137.2 million. Further dividends are anticipated. They are, however, materially uncertain.

NOTE 24. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

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

NOTE 25. EARNINGS PER UNIT

	Year Ended	
	30 June 2012 000's	30 June 2011 000's
Net loss used in calculating basic and diluted earnings per unit (\$)	(94,819)	(31,101)
The weighted average number of units on issue	830,533	764,470
The number of units used in calculating diluted earnings per unit	830,533	830,533
Earnings per unit attributable to unitholders		
Basic earnings /(loss) per unit	(0.11)	(0.04)
Diluted earnings /(loss) per unit	(0.11)	(0.04)

The Fund was listed in the 2009 financial year.



Directors' Declaration

In the opinion of the Directors of Wellington Capital Limited, the Responsible Entity of the Premium Income Fund (the 'Consolidated Fund'), we state that:

- (a) the financial statements and notes set out on pages 9 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as issued by the International Accounting Standards Board and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Consolidated Fund's financial position as at 30 June 2012 and of its performance for the year ended on that date.
- (b) there are reasonable grounds to believe that the Consolidated Fund will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements are in accordance with the Funds Constitution.

The Directors have been given the declarations by the Managing Director 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.



Jennifer Hutson
Director



Mary-Anne Greaves
Director

Brisbane
5 September 2012





Independent auditor's report to the members of Premium Income Fund

Report on the financial report

We have audited the accompanying financial report of Premium Income Fund (the fund), which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Premium Income Fund (the consolidated entity). The consolidated entity comprises the Premium Income Fund and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Wellington Capital Limited, as responsible entity for the fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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*.

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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 consolidated entity's financial position as at 30 June 2012 and of its 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 and notes also comply with International Financial Reporting Standards as disclosed in Note 2 (a)



PricewaterhouseCoopers



Robert Hubbard
Partner

Brisbane
5 September 2012

Supplementary information required by the Stock Exchange Listing Rules

Top 10 Unitholders as at 27 August 2012

Name	Number of units held	% of Total
1. Yuan Essentials Pty Ltd	88,516,054	10.66
2. Wellington Capital Limited <Wholesale Premium Income Fund A/C>	35,519,542	4.28
3. IOOF Investment Management Ltd <IOOF Portfolio Service A/C>	14,634,736	1.76
4. J P Morgan Nominees Australia Limited	4,520,627	0.54
5. Equity Trustees Limited <Accumulation Account>	4,000,000	0.48
6. Equity Trustees Limited <Allocated Pension Account>	4,000,000	0.48
7. Mercedes Holdings Pty Ltd	3,631,444	0.44
8. Max Investments (Aust) Pty Ltd	2,591,872	0.31
9. Gross S & T Pty Ltd <S & T Gross Superannuation Fund A/C>	2,500,000	0.30
10. Mansted Enterprises Pty Ltd <Mansted Enterprises S/F A/C>	2,180,000	0.26

Comparative results, assets and liabilities for the last five years

	2012	2011	2010	2009	2008	2007
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
	*Restated					
Net operating profit/(loss)	(94,819)	(31,101)	(34,449)	(39,356)	(379,283)	66,907
Assets	126,929	235,942	270,980	298,344	395,723	886,664
Liabilities (excluding net assets attributable to unitholders)	16,443	9,874	5,678	1,993	59,941	6,573





Wellington

PREMIUM INCOME FUND

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