

Premium Income Fund

Investor Update: December 2012



Welcome to the Investor Update for the Premium Income Fund. This update outlines key details about the Fund's activities for the period September to December 2012.

During this period the Fund has undergone significant activity.

The 2012 Annual Report was released on 5 September 2012, outlining the key details of the Fund's activities for the 12 months from 1 July 2011 to 30 June 2012. The Report notes a number of transactions finalised during that period, which enabled cash payments of 2.5 cents per Unit to Unitholders, being \$20.8 million.

The Fund also entered into and settled an agreement with Asset Resolution Limited (ARL) for the sale of \$90.75 million in assets from the Fund on 5 September 2012 in exchange for 830,532,768 shares, amounting to 100% of the issued capital in ARL. These shares were subsequently transferred to Unitholders in the Fund via an 'in specie' distribution. This means that you now own one share in ARL for each unit you hold in the Fund as at 4 September 2012.

ARL brings significant experience and global connections to these assets.

Wellington Capital Limited as responsible entity of the Fund continues to manage the balance assets of the Fund and will continue to strive to maximise the value of these assets and return capital to Unitholders as soon as possible.

Kind regards

Jenny Hutson

Jenny Hutson

**Managing Director
Wellington Capital Limited**

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

Investors now have ownership of two different securities:

- Shares in Asset Resolution Limited; and
- Units in the Premium Income Fund

Questions and correspondence in relation to the shareholding in ARL should be directed to:

Phone: 07 3225 4996
Email: info@arlimited.com.au



Key Events

- ✦ Asset Resolution Limited (ARL) acquired \$90.75 million in assets from the Fund in exchange for 830,532,768 shares in the company, which were transferred to Unitholders in the Fund via an 'in specie' distribution.
- ✦ The Annual Report as at 30 June 2012 for the Fund was released on 5 September 2012.

Sale of Assets to Asset Resolution Limited

Wellington Capital Limited as responsible entity of the Premium Income Fund announced on 5 September 2012 that Asset Resolution Limited (ARL) had acquired \$90.75 million in assets from the Premium Income Fund (Fund).

ARL is a well-credentialed special purpose company whose Board has both significant experience and connections in the optimal realisation of mortgage loans and leisure assets.

The mortgage loans and other assets that have been assigned to ARL are listed below, together with the market value of those assets, based on the carrying value of the Fund's assets as at 31 December 2011:

Mortgage loan with secured property at	Mortgage security over property described as	Market value based on 31 Dec 2011 carrying values
1500 Midland Highway, Creswick, Victoria *	144 room hotel and 18 hole golf course and residential land	\$24.60m
Routley Drive, Kooralbyn, Queensland	100 room hotel, golf course, school and residential land	\$20m
22 View Avenue, Surfers Paradise, Gold Coast, Queensland	104 rooms in Holiday Inn	\$19.05m
20-22 Mort Street, Port Macquarie, New South Wales	12 apartments at Icon Port Macquarie	\$9.8m
Lot 2 Explorer Drive, Mission Beach, Queensland	Land with development approval for tourist facility	\$6.35m
Dry Dock Road, Tweed Heads, New South Wales	Land with development approval	\$6.25m
507 – 523 Dalrymple Road and 9 Thorn Street, Mt Louisa, Townsville, Queensland	Land with development approval lodged for residential subdivision	\$2.7m
11 Ridge Street, Nambucca Heads, New South Wales	Land with development approval for 11 apartments	\$2m
All interest in the Class Action; ASIC compensation claim; and Proof of debt in Octaviar Limited (in liquidation) and Octaviar Administration Pty Ltd (in liquidation)		
TOTAL AGREED MARKET VALUE (based on 31 December 2011 carrying values)		\$90.75 million
Cash (provision for land tax, rates and utilities charges associated with assets assigned)		\$3.74m

* 60% of this debt has been assigned to ARL. 40% has been retained by the Premium Income Fund.



Consideration

In consideration for the above assignment and transfers, the Fund received 830,532,768 shares in ARL (being 100% of the issued capital of ARL), which it has then transferred to the Unitholders in the Fund. Each Unitholder in the Premium Income Fund has consequentially received by way of transfer a share in ARL for each Unit they hold in the Fund. This means that each Unitholder in the Fund became a shareholder in ARL.

ARL Resources and Implementation

ARL will utilise the advisory services of FTI Consulting (FTI) to assist in managing and realising the assets acquired from the Fund. FTI will be able to deliver access to a global network, broad regional coverage across Asia, strong local expertise and the ability to access additional skills as and when required.

Implications for Unitholders

As a result of this transaction, the Fund received 830,532,768 ordinary shares in ARL. These shares in ARL were transferred to Unitholders based on their Unitholding in the Premium Income Fund as at 4 September 2012. Each Unitholder in the Fund became an owner of shares in ARL on the basis of one ARL share for each Unit they hold in the Premium Income Fund. They also continue to own Units in the Premium Income Fund.

ARL will manage and realise the acquired assets in a value-maximising manner. As assets are realised, ARL will make returns to shareholders. Upon realisation of all acquired assets and the payment of available returns to shareholders, ARL will cease to trade.

Wellington Capital Limited will continue to manage the balance assets of the Fund, with a view to actively realising those security assets, and returning the proceeds to Unitholders as soon as possible.

Wellington Capital Limited believes that this transaction is in the best interests of Unitholders as:

- ✓ it will allow payment to be made to Unitholders by Wellington Capital Limited as responsible entity of the Fund in respect of the assets it manages
- ✓ it will allow payments to be made to shareholders by ARL as it realises and optimises the assets acquired
- ✓ ARL through FTI has access to FTI's global network, connections and experience for the benefit of shareholders, and an experienced 'on the ground' team which has recent and significant experience in optimising leisure asset values

Conclusion

Wellington Capital Limited believes that the advice and connections of FTI, combined with the skills and experience of the directors of ARL, provide a secure platform for shareholders in ARL to best achieve timely and optimal returns on the assets acquired by ARL.

Frequently Asked Questions about the ARL Transaction

Is Asset Resolution Limited the new responsible entity of the Fund?

- ✳ Wellington Capital Limited remains the responsible entity of the Premium Income Fund.

What did Wellington Capital Limited gain from this transaction?

- ✳ No fees or commission were paid to Wellington Capital Limited as part of this transaction.
- ✳ Wellington Capital Limited believes this transaction is in the best interests of Unitholders, which is why Wellington Capital Limited entered into this transaction.

Why do I hold shares in Asset Resolution Limited?

- ✳ You hold shares in Asset Resolution Limited because Wellington Capital Limited made an in specie distribution of shares to you and all other Unitholders in the Fund.
- ✳ You have shares in the company that now manages the assets purchased from the Fund.
- ✳ These shares entitle you to any future dividend payments or capital returns by Asset Resolution Limited to shareholders which result from the realisation of these assets.

Can I still sell my Units?

- ✳ Units in the Fund may be sold on-market on the NSX through a registered broker, or off-market to a third party with whom a Unitholder agrees to sell their Units.

Can I sell my new shares?

- ✳ You can sell or transfer your shares by way of an off-market transfer.
- ✳ Asset Resolution Limited shares are unlisted, but can be transferred by way of an off-market transfer form to a third party with whom a Unitholder agrees to sell their shares.

Annual Report and Financial Statements 30 June 2012

The Annual Report and Financial Statements for the Premium Income Fund for the year ended 30 June 2012 were released to the market on 5 September 2012.

The Report notes that a significant number of transactions for the sale of security assets were finalised in the 12 months to 30 June 2012, enabling cash payments of 2.5 cents per unit, totalling \$20.8 million during that period.

Eleven of the properties over which the Fund has security were recently valued by members of the Fund's valuation panel. These valuations have assisted the Board to 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.



The Board is hopeful that the market conditions will enable more positive outcomes to be achieved in the coming year.

Auditor

PricewaterhouseCoopers remains the auditor of the Premium Income Fund and was responsible for the Fund's financial statements for the period ending 30 June 2012.

PIF Unit Net Asset Backing as at 30 June 2012 adjusted to take into account the ARL Transaction

The transaction with ARL was negotiated and effected on the basis of 31 December 2011 financial accounts. Based on the 31 December 2011 carrying values, the percentage of assets assigned to ARL represents approximately 40% of the value of the Fund.

Based on the carrying values of the asset as at 30 June 2012, the percentage of assets assigned to ARL also represents approximately 40% of the value of the Fund.

Following completion of the transaction with ARL, the current net asset backing per Unit of Units in the Premium Income Fund, is 8 cents per Unit.

Commercial Loan Portfolio

Mortgagee in Possession Contract - Main Beach Parade, Gold Coast, Queensland

Wellington Capital Limited as responsible entity of the Premium Income Fund announced that Perpetual Nominees Limited has signed an

unconditional contract for the sale of the property held as security at 3496-3500 Main Beach Parade, Gold Coast, Queensland at \$5,527,500.

This development site is 1,232 square metres and has a Development Approval for a 16 storey residential apartments.

The site has been sold following CBRE's sales campaign for the subject site.

Settlement has now occurred.

Litigation Update

Federal Court proceedings in relation to the in specie distribution of Asset Resolution Limited shares

The Australian Securities and Investments Commission commenced legal proceedings in the Federal Court in Sydney challenging whether Wellington Capital Limited in its capacity as responsible entity is legally able to distribute shares, as

opposed to cash, to the Unitholders in the Premium Income Fund.

The matter was heard before Justice Jagot of the Federal Court on 11 October 2012 and 12 October 2012. A final hearing was set down for 17 October 2012 in the Federal Court in Sydney.

Justice Jagot ordered that the declaration sought by ASIC in relation to Section 601FC be dismissed. Following submissions on Wellington Capital Limited's behalf she ordered that ASIC pay Wellington Capital's costs in relation to this issue on an indemnity basis.

Her Honour, in dismissing the application, agreed that Wellington Capital had acted in accordance with the Constitution of the Premium Income Fund and the Corporations Act in determining to transfer the Asset Resolution Limited shares held by it to the Unitholders of the Premium Income Fund as at 4 September 2012.

Her Honour also ordered that ASIC pay Wellington Capital's costs.

ASIC has since filed an appeal to Justice Jagot's decision of 17 October 2012 in the Federal Court in Sydney.

The appeal will be heard by the full court of the Federal Court. A directions hearing is scheduled for 6 February 2013. ASIC's appeal seeks orders from the full Federal Court overturning Justice Jagot's decision on the basis that they say she erred in finding against ASIC in dismissing the application and awarding indemnity costs to Wellington Capital Limited.

Jenny Hutson Managing Director said *'Justice Jagot found that Wellington Capital Limited acted within the powers conferred on it by the Premium Income Fund constitution and in accordance with the Corporations Act.'*

'The in specie distribution of Asset Resolution Limited shares to the Unitholders of the Premium Income Fund announced on 5 September 2012 was, in our view, an appropriate course of action undertaken in the best interests of Unitholders. We will vigorously oppose the orders sought.'

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

His Honour, Justice Siffris of the Victorian Supreme Court, dismissed the application for declaratory and injunctive relief sought by the Defendant in 6858/2009 against Wellington Capital Limited and Asset Resolution Limited. The application was heard on 11 September 2012. At that time the defendant sought orders by way of declaration and injunction with respect to the sale of assets from Wellington Capital Limited as responsible entity of the Premium Income Fund and Perpetual Nominees Limited as custodian of the Premium Income Fund to Asset Resolution Limited as announced to the market on 5 September 2012.

Justice Siffris further dismissed the summons and declined to give the orders sought by the Defendants.





Update in respect of ASIC Compensation Claim - Legal proceedings assigned to ARL

As advised to the market on 5 September 2012, Wellington Capital Limited as responsible entity of the Premium Income Fund and Perpetual Nominees Limited as custodian have sold certain of the Premium Income Fund's assets to Asset Resolution Limited. These assets included all of the Fund's interest in the ASIC Compensation Claim, the Class Action claim, and Proof of Debt claim in the liquidation of Octaviar Limited (In Liquidation) and Octaviar Administration Limited (In Liquidation).

In response to various Unitholder enquiries, Wellington Capital Limited confirms that pursuant to the agreement with ARL:

- ✿ ARL acknowledges that the potential beneficiaries of the ASIC Compensation Claim are the Unitholders in the Fund as at 15 October 2008; and
- ✿ ARL undertakes to promptly distribute any compensation arising from that claim to the Unitholders of the Fund as at 15 October 2008.

Investor Advisory Committee

Investor Advisory Committee Meeting

The Investor Advisory Committee met with the Fund's management team in December 2012 to discuss correspondence received since the Committee's last report.

The Committee's report is set out as follows:

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

Asset Sales

The Committee tabled correspondence from Unitholders regarding various asset sales, including the transaction with ARL. Significant discussion was had with management regarding the terms of the transaction and the ultimate benefit to Unitholders.

Legal Proceedings

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

Payments to Unitholders

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

Contacting the Investor Advisory Committee

The Investor Advisory Committee can be contacted by email or by post as set out below. All correspondence from Unitholders is tabled at each meeting of the Committee. No correspondence is entered into by the Committee directly with individual Unitholders.

iac@wellcap.com.au

Investor Advisory Committee
Premium Income Fund
Wellington Capital Limited
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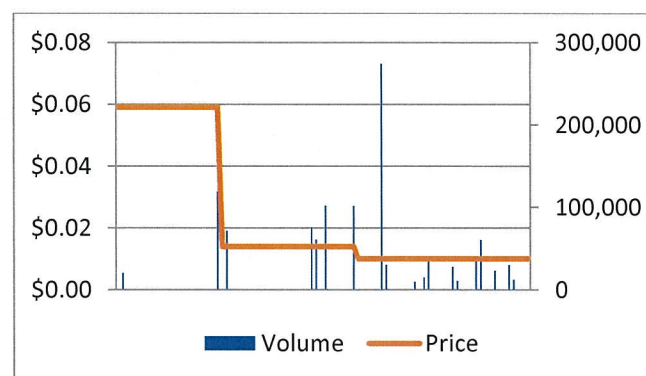
National Stock Exchange (NSX) Update

A summary of trading activity from 1 September 2012 to 3 December 2012 is set out below:

High	Low	Volume
5.9 cents	1.0 cents	1,123,743

Trading summary (NSX:PIN)

1 September 2012 to 3 December 2012



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