



# **Annual Report**

Premium Income Fund

ARSN 090 687 577

30 June 2013

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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 Pty Ltd GPO Box 897 Brisbane Qld 4001
AUDITORS – (FINANCIAL)	Pitcher Partners GPO Box 1144 Brisbane Qld 4001
AUDITORS – (COMPLIANCE PLAN)	Crowe Horwath GPO Box 736 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 ('the Fund'), for the year ended 30 June 2013.

## Responsible entity

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

## 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 (2012:nil).

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 45

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 7 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 69

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 48

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. Mrs Greaves is a lawyer and has a particular focus in the property and finance industries. She has more than 18 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.

## Review and results of operations

The primary assets of the Fund are mortgage loans made to borrowers. Where the borrowers had defaulted the Fund took steps to secure the underlying security and became mortgagee in possession of the underlying security properties in the mortgage loan class. As reported in previous financial reports, this asset class continued to suffer the effects of severely affected valuation and recoverability issues.

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.



## Directors' Report (continued)

On 5 September 2012, Wellington Capital Limited as responsible entity for the Premium Income Fund announced that Asset Resolution Limited ('ARL') had acquired assets from the Fund which had a carrying value as at 30 June 2012 of \$55.4m. The Fund received 830,532,768 shares in ARL in consideration for the assignment which it then immediately transferred to Unitholders in the Fund in proportion to their unitholding as at 4 September 2012. This means that each unitholder in the Fund at that date became a shareholder in ARL. ARL is completely independent and is not related to Wellington Capital Limited or any of its Directors.

On 19 December 2012, Wellington Capital Limited as responsible entity for the Premium Income Fund announced that it had sold to ARL additional assets comprising the transfer by assignment of the charges over six of the Forest Resort group of companies held as security in relation to the Forest Resort group loans. The Fund received 150,025,399 shares in ARL in consideration for the assignment of the charges. Following this share issue ARL has 980,558,167 shares on issue of which 84.7% (830,532,768) were distributed in-specie to unitholders of the Fund as at 4 September 2012 and 15.3% (150,025,399) are held by Perpetual Nominees Limited as custodian for the Premium Income Fund.

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

On 28 February 2013, the Premium Income Fund realised the Fund's 57.5% interest in the Harbour Street Development Trust ('HST') that owns the 168 room Chifley Wollongong Hotel. The Premium Income Fund became mortgagee-in-possession of the Wollongong Hotel during 2008, after the borrowers defaulted on the finance facility provided by the Fund. At the time the Fund took possession, the hotel was incomplete. The Fund sold the asset to Harbour Street Developments Pty Ltd and worked with it to complete the construction of the hotel and the adjacent apartments which were also part of the project.

The Fund has realised its final 57.5% of the units in HST for \$8.9m, payable over time. The first payment for \$1.6m was received on 28 February 2013. A further \$3.0m is to be received in June 2014, with the remaining \$4.3m due in December 2014. The payment obligation is supported by a caveat over the hotel title and power of attorney giving the Fund power to sell the hotel if payments are not received in accordance with the agreements.

On 17 April 2013 Wellington Capital Limited as responsible entity for the Premium Income Fund announced that it had entered into an unconditional contract to sell its interest in the units it holds in the Dole Property Trust, the Peppertree joint venture, the balance due to the Fund in relation to the sale of the security property at Lane Cove, the balance due to the Fund following the sale of the security property at Lithgow, and its loan to Seiza Finance. The sale price was \$5.2m payable over time. The first payment for \$1.2m was received on 20 June 2013 and the balance due by 30 September 2013.

It is the Directors' intention to continue to manage the remaining asset portfolio and cash flows so as to maximise the net asset backing of a unit thereby maximising returns to Unitholders.

The Directors are of the view that 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 2013 \$000's	30 June 2012 \$000's
Net operating loss attributable to unitholders	(25,977)	(94,819)
Cash payments to unitholders during the year	4,983	20,763
Cash payments - cents per unit.	0.60	2.50
In-specie distribution	55,405	-

Cash payments to unitholders during the year totalled \$4.983 million (2012:\$20.763 million) and were paid as follows:

- 0.60 cents per unit paid on 19 December 2012.

The Fund had total net assets valued at \$20.045 million as at 30 June 2013 (2012 - \$110.49 million). The basis for valuation of the Fund's assets is contained in Note 2(d) of the financial statements.



## Directors' Report (continued)

### 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 2013.

The asset allocation of the Fund is as follows:

	Year Ended	
	30 June 2013	30 June 2012
Mortgage Loans	17.0%	50.4%
Managed Investment Schemes	5.3%	3.4%
Alternative Investments	-%	32.5%
Cash Investments	76.9%	13.6%
Fixed Interest Investments	0.8%	0.1%

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

Since 30 June 2013 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 2013 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.





## Directors' Report (continued)

### Fees paid to and interests of the Fund held 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 during the 2013 financial year totalling \$470,265 (2012:\$912,224) representing 0.7% per annum of the funds under management. Management fees paid to the responsible entity are limited to two years ending 14 December 2013.

### Interests in the Fund

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

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

### 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 August 2013



Mary-Anne Greaves  
Director



# Auditors Independence Declaration



**PITCHER PARTNERS**  
ACCOUNTANTS • AUDITORS • ADVISORS

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BRETT HEADRICK  
WARWICK FACE  
NIGEL BATTERS

## Auditor's Independence Declaration

As lead auditor for the audit of Premium Income Fund for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PITCHER PARTNERS

NIGEL BATTERS  
Partner

Brisbane, Queensland  
5 August 2013



# Consolidated Statement of Comprehensive Income

		Year Ended	
	Note	30 June 2013 \$000's	30 June 2012 \$000's
<b>REVENUE FROM CONTINUING OPERATIONS</b>			
Development and construction revenue	3	<b>1,080</b>	3,399
Interest income	4	<b>456</b>	2,973
<b>Revenue from continuing operations</b>		<b>1,536</b>	6,372
<b>INVESTMENT INCOME</b>			
Net gain/(loss) on financial instruments designated as at fair value through profit or loss		<b>1,538</b>	4,179
Net loss on mortgage loans	14	<b>(7,873)</b>	(71,790)
Net loss on other financial assets	10	<b>(17,893)</b>	(28,696)
Investment income	5	<b>1</b>	22
Other operating income	6	<b>4,456</b>	3,200
<b>Total revenues and investment loss</b>		<b>(18,235)</b>	(86,713)
<b>EXPENSES</b>			
Cost of development construction and property sales	7	<b>872</b>	4,023
Responsible entity's fees	19	<b>470</b>	961
Custodian and registry fees		<b>491</b>	525
Fees and commission expense		<b>60</b>	220
Auditor's remuneration	8	<b>265</b>	216
Finance costs	16	<b>358</b>	419
Professional and consulting fees		<b>3,646</b>	1,163
Insurance		<b>126</b>	180
Administration expenses		<b>1,454</b>	399
<b>Total operating expenses</b>		<b>7,742</b>	8,106
<b>Operating loss</b>		<b>(25,977)</b>	(94,819)



## Consolidated Statement of Comprehensive Income (continued)

	Note	Year Ended	
		30 June 2013 \$000's	30 June 2012 \$000's
<b>Other Comprehensive income</b>		-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(25,977)</b>	(94,819)
<b>Profit attributable to:</b>			
Unitholders		<b>(26,102)</b>	(94,555)
Non-controlling interest		<b>125</b>	(264)
		<b>(25,977)</b>	(94,819)
<b>EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS</b>			
Basic earnings/(loss) per unit	24	<b>(0.03)</b>	(0.11)
Diluted earnings/(loss) per unit	24	<b>(0.03)</b>	(0.11)

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



# Balance Sheet

		Year Ended	
	Note	30 June 2013 \$000's	30 June 2012 (Consolidated) \$000's
<b>ASSETS</b>			
Cash and cash equivalents	20	<b>2,265</b>	12,071
Other financial assets	10	-	21,368
Receivables	11	<b>12,000</b>	5,149
Financial assets held at fair value through profit or loss	12	<b>6,431</b>	4,606
Inventory	13	-	19,826
Mortgage loans	14	<b>500</b>	63,909
<b>TOTAL ASSETS</b>		<b>21,196</b>	126,929
<b>LIABILITIES</b>			
Payables	15	<b>1,151</b>	6,023
Bank loans	16	-	10,420
<b>TOTAL LIABILITIES</b>		<b>1,151</b>	16,443
<b>NET ASSETS</b>		<b>20,045</b>	110,486
<b>EQUITY</b>			
Contributed equity		<b>245,638</b>	306,026
Non-controlling interest	17	-	6,093
Retained losses		<b>(225,593)</b>	(201,633)
<b>TOTAL EQUITY</b>		<b>20,045</b>	110,486

The above 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.



## Consolidated Statement of Changes in Equity

2013	Note	Contributed Equity	Retained Losses	Non-controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
<b>BALANCE AT BEGINNING OF THE YEAR</b>		<b>306,026</b>	<b>(201,633)</b>	<b>6,093</b>	<b>110,486</b>
Net profit/(loss) for the period		-	(26,102)	125	(25,977)
Transactions with non-controlling interest		-	2,142	(2,142)	-
Disposal of non-controlling interest		-	-	(4,076)	(4,076)
Cash payments to unitholders	9	(4,983)	-	-	(4,983)
In-specie distribution of ARL shares to Unitholders	9	(55,405)			(55,405)
<b>BALANCE AT THE END OF THE YEAR</b>		<b>245,638</b>	<b>(225,593)</b>	<b>-</b>	<b>20,045</b>

2012 (Consolidated)	Note	Contributed Equity	Retained Losses	Non-controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
<b>BALANCE AT BEGINNING OF THE YEAR</b>		326,789	(103,523)	2,802	226,068
Net profit/(loss) for the period		-	(94,555)	(264)	(94,819)
Transactions with non-controlling interest		-	(3,555)	3,555	-
Cash payments to unitholders	9	(20,763)	-	-	(20,763)
In-specie distribution of ARL shares to Unitholders	9	-	-	-	-
<b>BALANCE AT THE END OF THE YEAR</b>		<b>306,026</b>	<b>(201,633)</b>	<b>6,093</b>	<b>110,486</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.



# Statement of Cash Flow

		Year Ended	
	Note	30 June 2013 \$000's	30 June 2012 (Consolidated) \$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest, fees, investment and other income received		<b>3,539</b>	5,715
Gross proceeds from property sales		-	5,172
Payments to suppliers in relation to properties sold		<b>(10)</b>	(1,510)
Interest paid		-	(525)
Payments to suppliers		<b>(5,618)</b>	(6,654)
Net cash inflow/(outflow) from operating activities	20	<b>(2,089)</b>	2,198
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Mortgage loan advances		<b>(9,233)</b>	(14,371)
Mortgage loan repayments		<b>5,687</b>	2,716
Cash distributions received		<b>968</b>	-
Other investments realised		<b>1,744</b>	22,075
Net cash inflow/(outflow) from investing activities		<b>(834)</b>	10,420
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash payments to unitholders	9	<b>(4,983)</b>	(20,763)
Increase in borrowings		-	9,042
Net cash inflow/(outflow) from financing activities		<b>(4,983)</b>	(11,721)
Net increase/(decrease) in cash and cash equivalents		<b>(7,906)</b>	897
Cash and cash equivalents at beginning of year		<b>10,171</b>	11,174
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	20	<b>2,265</b>	12,071

The above Statement of Cash Flow should be read in conjunction with the accompanying notes.



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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 for the year ended 30 June 2013. The Premium Income Fund is a listed registered managed investment scheme (ARSN 090 687 577) and 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 August 2013. 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 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 financial statements have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB). The Fund is a for profit unit trust for the purposes of preparing the financial statements.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement of fair value of selected assets, financial assets and financial liabilities.

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.

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 Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that financial statements and accompanying notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

#### **Principles of Consolidation**

These financial statements for the year ended 30 June 2013 are for the Premium Income Fund as a consolidated entity. The effect of consolidation is that 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. During the period ending 30 June 2013 the controlled entities were sold. A list of the controlled entities and details of their sale is contained in Note 17.

#### **(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.

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.



## Notes to the Financial Statements (Continued)

- **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/de-recognition*

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 de-recognised 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.

(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.



## **Notes to the Financial Statements (Continued)**

### **(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 estimates – uncertainty around collateral for Mortgage Loans and Other Financial Assets**

The Fund makes use of estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements included in the financial statements are based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and from within the Fund.

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 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 resulted in 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 transferred into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

The fair value of underlying security for mortgage loans in default, or mortgagee in 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 part of 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) 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 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.

#### (ii) Investment Income

Distributions from managed investment schemes are recognised on a cash basis and 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).

#### (iii) Rental income

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



## Notes to the Financial Statements (Continued)

### (i) Expenses

All expenses are recognised in profit and loss on an accruals basis.

### (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) Payables

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

### (l) 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 Statement of Comprehensive Income inclusive of GST. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

### (m) 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.

### (n) 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 as the parent entity had two controlled entities.

The first, the parent entity, had a 57.5% (2012:57.5%) interest in the Harbour Street Development Trust and which the Fund sold its interest in February 2013.

The second, the parent entity had a 91.8% (2012: 91.8%) interest in the Dole Property Trust and which the Fund sold its interest in April 2013.

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

### (o) New accounting standards and interpretations

The AASB has issued a number of new and amended accounting standards and interpretation that have mandatory application dates for future reporting periods and that have become mandatory for the first time. Some of these are relevant to the Scheme. The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Scheme's accounting policies and have had no effect on the amounts reported for the current or comparison year.

## NOTE 3. DEVELOPMENT AND CONSTRUCTION REVENUE

	Year Ended	
	30 June 2013	30 June 2012
	\$000's	\$000's
Property sales	<b>1,080</b>	3,399

The Controlled Entity completed the development and construction of the Harbour Street Wollongong project in the 2010 financial year. The two remaining apartments were sold by the controlled entity and on 28 February 2013, the Premium Income Fund realised its 57.5% interest in the Harbour Street Development Trust that owns the 168 room Chifley Hotel. Refer to Note 17.



## Notes to the Financial Statements (Continued)

	Year Ended	
	30 June 2013	30 June 2012
	\$000's	\$000's
<b>NOTE 4. INTEREST INCOME</b>		
Cash and cash equivalents	135	485
Mortgage loans	321	1,468
Other financial assets	-	1,020
	<b>433</b>	<b>2,973</b>

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**

Equity securities	1	22
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Interest is recognised in accordance with the accounting policy in Note 2(h).

**NOTE 6. OTHER OPERATING INCOME**

Rent income	425	1,193
Sundry income	3,063	33
Cash distributions received	968	-
GST Refund	-	1,974
	<b>4,456</b>	<b>3,200</b>

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 7. COST OF DEVELOPMENT, CONSTRUCTION AND PROPERTY SALES**

Marketing and selling costs	46	256
Development and project management costs	826	3,634
Government charges and fees	-	133
	<b>872</b>	<b>4,023</b>



## Notes to the Financial Statements (Continued)

### NOTE 8. AUDITORS' REMUNERATION

	Year Ended	
	30 June 2013	30 June 2012
	\$	\$
<i>AUDIT SERVICES:</i>		
Audit & review services – PricewaterhouseCoopers	138,435	185,233
Audit & review services – Pitcher Partners	62,500	-
Compliance plan audit services	47,660	15,810
<i>Non-audit services:</i>		
Tax services	16,654	14,560
<b>Total remuneration</b>	<b>265,249</b>	<b>215,603</b>

PricewaterhouseCoopers Australia performed the financial statements audit for 2012.

Pitcher Partners perform the financial statements audit.

Crowe Horwath perform the Compliance Plan audit.

Pitcher Partners provide tax services.

### NOTE 9. PAYMENTS TO UNITHOLDERS

The Fund made one cash payment to unitholders:

- 0.6 cent per unit paid on 19 December 2012.

	Year Ended	
	30 June 2013	30 June 2012
	\$000's	\$000's
Payments paid to unitholders	4,983	20,763
In-specie distribution	55,405	-
	<b>60,388</b>	<b>20,763</b>

On 5 September 2012, Wellington Capital Limited as responsible entity for the Premium Income Fund announced that Asset Resolution Limited ('ARL') had acquired assets from the Fund which had a carrying value as at 30 June 2012 of \$55.4m. The Fund received 830,532,768 shares in ARL in consideration for the assignment and transfers which it then immediately transferred to the Unitholders of the Fund in proportion to their unitholding as at 4 September 2012. This means that each unitholder in the Fund at that date became a shareholder in ARL. ARL is completely independent and is not related to Wellington Capital Limited or any of its Directors.



## Notes to the Financial Statements (Continued)

	Year Ended	
	30 June 2013 \$000's	30 June 2012 \$000's
<b>NOTE 10. OTHER FINANCIAL ASSETS</b>		
Asset backed investments	39,217	66,951
Provision for impairment	(39,217)	(45,583)
<b>Written down value of asset backed investments</b>	<b>-</b>	<b>21,368</b>
<b>Reconciliation of Provision for Impairment – Other Financial Assets</b>		
Balance at the beginning of the financial year	45,583	16,887
Impairment recognised during the year	17,893	29,113
Impairment provision reversed on disposal	(24,259)	(417)
Balance at the end of the financial year	39,217	45,583

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

Other debtors	12,000	5,052
GST receivable	-	97
	<b>12,000</b>	<b>5,149</b>

Included in the receivable is the amount due to the Fund following the Fund's realisation of its units in the Harbour Street Development Trust. The payment obligation is supported by a caveat over the hotel title and power of attorney giving the Fund power to sell the hotel if payments are not received in accordance with the agreements.

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

Equity securities	157	4,512
Fixed interest securities	24	94
Shares held in unlisted securities	6,250	-
	<b>6,431</b>	<b>4,606</b>

On 19 December 2012, Wellington Capital Limited as responsible entity for the Premium Income Fund sold to Asset Resolution Limited ('ARL') additional assets comprising the transfer by assignment of the charges over six of the Forest Resort Group of Companies held as security in relation to the Forest Resort group loans.





## Notes to the Financial Statements (Continued)

The Fund received 150,025,399 shares in ARL in consideration for the assignment of the charges. Following this share issues ARL has 980,558,167 shares on issue of which 84.7% (830,532,768) which were distributed in-specie to unitholders of the Fund as at 4 September 2012 and 15.3% (150,025,399) is held by Perpetual Nominees Limited as custodian for the Premium Income Fund.

Year Ended	
30 June 2013	30 June 2012
\$000's	\$000's

### NOTE 13. INVENTORY

Inventory consisted of the hotel and unsold apartments at Harbour Street, Wollongong. Finished goods were actively being marketed for sale and valued at the lower of cost and net realisable value.

Finished goods valued at lower of cost and net realisable value	-	19,826
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The two remaining apartments were sold by the controlled entity and on 28 February 2013, the Premium Income Fund realised the Fund's 57.5% interest in the Harbour Street Development Trust that owns the 168 room Chifley Hotel. Refer to Note 17.

### NOTE 14. MORTGAGE LOANS

Mortgage loans	2,624	212,863
Provision for impairment	(2,124)	(148,954)
<b>Written down value of mortgage loans</b>	<b>500</b>	<b>63,909</b>

#### Reconciliation of Provision for Impairment – Mortgage Loans

Balance at the beginning of the financial year	148,954	77,163
Provision for impairment recognised during the year	125	73,569
Impairment provision reversed on disposal	(154,703)	-
Net (gain)/loss on assets realised during the year	7,748	(1,778)
Balance at the end of the financial year	2,124	148,954

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. Assets are classified as mortgage loans in default or mortgagee-in-possession when the Fund has issued default notices to the borrower under the terms of the lending arrangements. 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).

The Directors have made an assessment of each mortgage loan to determine the likelihood of recovery and the extent of any possible impairment in the value of these investments. Where, in the opinion of the Directors, an assets value is impaired, the asset has been written-down to the Director's assessment of fair value. The estimates completed by the Directors are considered having regards to the critical accounting estimate outlined in Note 1. The current market volatility in pricing assumptions and market drivers means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. In the current market, the time taken to negotiate a sale is significantly prolonged. While this represents the best estimate of fair value as at the Balance Sheet date, the current market uncertainty means that if the remaining property is sold in the future, the price attained may be higher or lower than the most recent valuation, or higher or lower than the current fair value recorded in the financial statements.

On 5 September 2012, Wellington Capital Limited as responsible entity for the Premium Income Fund announced that Asset Resolution Limited ('ARL') had acquired assets from the Fund which had a carrying value as at 30 June 2012 of \$55.4m.



## Notes to the Financial Statements (Continued)

The Fund received 830,532,768 shares in ARL in consideration for the assignment and transfers which it then immediately transferred to the Unitholders in the Fund in proportion of their unitholding as at 4 September 2012. This means that each unitholder in the Fund at that date became a shareholder in ARL. ARL is completely independent and is not related to Wellington Capital Limited or any of its Directors.

	Year Ended	
	30 June 2013	30 June 2012
	\$000's	\$000's
<b>NOTE 15. PAYABLES</b>		
Trade payables	130	4,457
Accrued expenses	970	1,122
GST payable	51	444
	<b>1,151</b>	<b>6,023</b>

## NOTE 16. BANK LOANS

Following the of the Fund's interest in the controlled entities from the Fund, there is no bank loan liability.

In the 2012 financial year, a controlled entity of the Fund 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 was secured by a mortgage over the Chifley Hotel asset and collateral security from the Non-Controlling interest. There was no recourse upon, or provided by, the Premium Income Fund.

Bank loan – Chifley Hotel	-	9,166
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Another controlled entity had a non-recourse agribusiness loan for the development and construction of farm sheds in Mareeba. The loan was secured by a mortgage over the property. There was no recourse upon, or provided by, the Premium Income Fund.

Bank loan	-	1,254
Total – Bank Loans	-	10,420

## NOTE 17. NON-CONTROLLING INTEREST

The Premium Income Fund had a 57.5% controlling interest in the entity used in completion of the development at Harbour Street, Wollongong. On 28 February 2013, the Premium Income Fund realised its 57.5% interest in the Harbour Street Development Trust – the entity that owns the 168 room Chifley Hotel at Wollongong. The interest was sold for \$8.9m payable over time. The first payment for \$1.6m was received on 28 February 2013. The remaining \$7.3m is a receivable, refer to Note 11, with \$3.0m to be received in June 2014 and the remaining \$4.3m due in December 2014. The payment obligation is supported by a caveat over the hotel title and power of attorney giving the Fund power to sell the hotel if payments are not received in accordance with the agreements.

The Premium Income Fund had 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. On 17 April 2013, the Premium Income Fund realised the Fund's 91.8% interest in the Dole Property Trust. The interest was sold for \$2.241m and is a receivable, refer to Note 11, due to be received before 30 September 2013.



## Notes to the Financial Statements (Continued)

### 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.

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

	Year Ended	
	30 June 2013 \$000's	30 June 2012 \$000's
<b>Balance Sheet</b>		
Total assets	<b>21,196</b>	113,677
Total liabilities	<b>1,151</b>	5,729
<b>Net Assets</b>	<b>20,045</b>	107,948
<b>Equity</b>		
Contributed equity	<b>306,026</b>	326,789
Distributions paid	<b>(60,388)</b>	(20,763)
Retained losses	<b>(225,593)</b>	(198,078)
	<b>20,045</b>	107,948
Total Comprehensive Loss for the year	<b>(26,102)</b>	(94,555)

### 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, \$0.5 million (2012: \$63.9 million) of the mortgage loans are impaired and non-performing, whilst \$nil (2012: \$nil) 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 2013 \$000's	30 June 2012 \$000's
<b>Maximum exposure to credit risk:</b>		
Mortgage loans renegotiated	-	-
Non-performing mortgage loans with no impairment	-	-
Non-performing mortgage loans with impairment	500	63,909
<b>Total maximum exposure to credit risk</b>	<b>500</b>	<b>63,909</b>
Collateral held	500	63,909
Collateral held as Mortgagee in Possession	500	63,909

Collateral held comprises a first mortgage over property. The carrying value of mortgage loan 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.

### 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	-	-
	-	-

#### Non-performing mortgage loans with impairment

	Year Ended	
	30 June 2013 \$000's	30 June 2012 \$000's
Past due 1-3 months	-	-
Past due 4-6 months	-	-
<i>Past due greater than 6 months</i>	500	68,909
	500	68,909



## Notes to the Financial Statements (Continued)

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 \$nil (2012 \$21.4m).

### 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 (2012:\$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.

2013	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non- interest bearing (\$000's)	Total (\$000's)
<b>Financial Assets</b>					
Cash and cash equivalents	2.66	2,265	-	-	2,265
Asset backed investments	-	-	-	-	-
Trade & other receivables	-	-	-	12,000	12,000
Equity securities	-	6,407	-	-	6,407
Fixed interest securities	-	-	24	-	24
Mortgage loans	<i>Note (i)</i>	-	500	-	500
<b>Total Assets</b>	-	<b>8,672</b>	<b>524</b>	<b>12,000</b>	<b>21,196</b>
<b>Financial Liabilities</b>					
Trade & other payables	-	-	-	1,151	1,151
Bank loans	-	-	-	-	-
<b>Total Liabilities</b>	-	-	-	<b>1,151</b>	<b>1,151</b>

*Note (i)* - 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)).



## Notes to the Financial Statements (Continued)

2012	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non-interest bearing (\$000's)	Total (\$000's)
<b>Financial Assets</b>					
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	<i>Note (i)</i>	-	63,909	-	63,909
<b>Total Assets</b>	-	16,583	64,003	26,517	107,103
<b>Financial Liabilities</b>					
Trade & other payables	-	-	-	6,023	6,023
Bank loans	4.90	1,254	9,166	-	10,420
<b>Total Liabilities</b>	-	1,254	9,166	6,023	16,443

**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.

2013	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	114	1,037	-	-	1,151
Bank loans	-	-	-	-	-
	114	1,037	-	-	1,151



**Notes to the Financial Statements (Continued)**

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

**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.

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 2013.

2013	Level 1 \$000's	Level 2 \$000's	Level 3 \$000's	Total \$000's
<b>Financial Assets</b>				
Financial Assets designated at fair value through profit or loss				
- Equity securities	-	6,407	-	6,407
- Fixed interest securities	24	-	-	24
<b>Total</b>	<b>24</b>	<b>6,407</b>	<b>-</b>	<b>6,431</b>



## Notes to the Financial Statements (Continued)

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

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 Directors of Wellington Capital Limited, as responsible entity for the Premium Income Fund, fulfils the role of key management personnel. There are no other key management personnel.

#### Controlled Entity

Refer also to Note 17. At Balance Sheet date the Fund did not have any controlled entities.

Year Ended	
30 June 2013	30 June 2012
\$	\$

#### Responsible Entity's Fees and Other Transactions

Management fees paid to the responsible entity.

- Wellington Capital Limited from the Fund	470,265	912,224
- Wellington Capital Limited from Dole Property Trust	-	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 \$881,617 (2012:\$297,084) and for which the Responsible Entity is entitled to be reimbursed by the Fund in accordance with the Fund's Constitution. At 30 June 2013, \$53,536 (2012: \$nil) was owed to the Responsible Entity.





## Notes to the Financial Statements (Continued)

### Related party Transactions

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

	Year Ended	
	30 June 2013 \$	30 June 2012 \$
Registry fees paid to Armstrong Registry Services Pty Ltd	<b>473,646</b>	464,795

As at 30 June 2013, \$39,722 (2012: \$nil) was owing to Armstrong Registry Services Pty Ltd.

### 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 2013

	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	<b>36,697,749</b>	<b>34,466,800</b>	<b>4.4</b>	-	<b>2,230,949</b>	<b>211,042</b>

#### 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

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.



## Notes to the Financial Statements (Continued)

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

	Year Ended	
	30 June 2013 \$000's	30 June 2012 \$000's
Net profit/(loss)	(25,977)	(94,819)
Net unrealised (gain)/loss on financial instruments designated as fair value through profit or loss	16,230	25,253
Impairment of inventory	-	-
Cost impairment on property sales	-	2,615
Net (gain)/loss on mortgage loans	7,873	71,813
Decrease/(increase) in receivables	-	(172)
(Decrease)/increase in payables	(215)	(2,492)
Net cash inflow/(outflow) from operating activities	(2,089)	2,198

#### 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	2,265	12,071
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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.

### NOTE 22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since 30 June 2013 there has not been any other matter, event or circumstance not otherwise dealt with in this financial report that has materially affected or may materially affect the Fund.

### NOTE 23. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

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 could occur however they are materially uncertain.

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



## Notes to the Financial Statements (Continued)

## NOTE 24. EARNINGS PER UNIT

	Year Ended	
	30 June 2013 000's	30 June 2012 000's
Net loss used in calculating basic and diluted earnings per unit (\$)	(25,977)	(94,819)
The weighted average number of units on issue	830,533	830,533
The number of units used in calculating diluted earnings per unit	830,533	830,533
<b>Earnings per unit attributable to unitholders</b>		
Basic earnings /(loss) per unit	(0.03)	(0.11)
Diluted earnings /(loss) per unit	(0.03)	(0.11)
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:

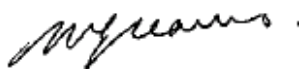
- (a) the financial statements and notes set out on pages 9 to 32 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as issued by the International Accounting Standards 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 2013 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 August 2013



# Independent Audit Report



**PITCHER PARTNERS**  
ACCOUNTANTS • AUDITORS • ADVISORS

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PETER CAMENZULI  
JASON EVANS  
CHRIS BALL  
IAN JONES  
KYLIE LAMPRECHT  
NORMAN THURECHT  
BRETT HEADRICK  
WARWICK FACE  
NIGEL BATTERS

## Independent Auditor's Report to the Members of Premium Income Fund

We have audited the accompanying financial report of Premium Income Fund ("the fund"), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Premium Income Fund. 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB101 *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. Those 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 company's preparation of the financial report that gives a true and fair view 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 company'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 opinion.

*Independence*

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

*Opinion*

In our opinion:

- (a) the financial report of Premium Income Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entities' financial position as at 30 June 2013 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 also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

PITCHER PARTNERS

NIGEL BATTERS  
Partner

Brisbane, Queensland  
5 August 2012



# Supplementary information required by the Stock Exchange Listing Rules

Top 10 Unitholders as at 1 August 2013

Name	Number of units held	% of Total
1. Yuan Essentials Pty Ltd	88,470,604	10.65
2. Perpetual Corporate Trust Limited <Wholesale Premium Income Fund A/C>	34,466,800	4.15
3. IOOF Investment Management Ltd <IOOF Portfolio Service A/C>	13,688,814	1.65
4. J P Morgan Nominees Australia Limited	8,395,195	1.02
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
	<b>163,924,729</b>	<b>19.74</b>
<b>Total units issued</b>	<b>830,532,740</b>	<b>100.00</b>

Comparative results, assets and liabilities for the last five years

	2013	2012	2011	2010	2009	2008	2007
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
	(Consolidated)		*Restated				
Net operating profit/(loss)	<b>(25,977)</b>	<b>(94,819)</b>	<b>(31,101)</b>	<b>(34,449)</b>	<b>(39,356)</b>	(379,283)	66,907
Assets	<b>21,196</b>	<b>126,929</b>	<b>235,942</b>	<b>270,980</b>	<b>298,344</b>	395,723	886,664
Liabilities (excluding net assets attributable to unitholders)	<b>1,151</b>	<b>16,443</b>	<b>9,874</b>	<b>5,678</b>	<b>1,993</b>	59,941	6,573





# Wellington

PREMIUM INCOME FUND

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