

Restructure of Wollongong transaction

On 18 November 2009, Wellington Capital Limited as responsible entity for the Premium Income Fund announced that the Fund, in its capacity as mortgagee in possession of 60 – 62 Harbour Street, Wollongong, had sold the partially complete asset, hotel and apartment complex to Harbour Street Development Pty Ltd for \$38 million (plus GST).

The Premium Income Fund became mortgagee in possession of the Wollongong property during 2008, after the borrowers defaulted on the finance facility provided by the Fund.

The property at that time was incomplete.



Incomplete Project, May 2009

The Wollongong property was taken to market 'as is' by the Premium Income Fund during May 2009. The property was passed in at auction, and a contract was entered into after auction with the highest bidder, subject to due diligence. The contracting purchaser terminated the contract during the due diligence phase, and the property remained on the market.

There was significant interest in the property post-auction. Wellington Capital Limited as responsible entity of the Premium Income Fund remained in discussions with these parties, resulting in a contract being entered into between the Fund and Harbour Street Development Pty Ltd.

Construction Update

Harbour Street Developments Pty Ltd has now completed the 85 apartments, the 168 room hotel and the commercial area which are the Wollongong project, and funding arrangements made by Harbour Street Developments Pty Ltd to enable it to complete the project have been repaid.





Hotel fitout, 27 August 2010

The hotel, now known as Chifley Wollongong opened on 1 September 2010.

60 apartments have been sold. 25 apartments remain to be sold as does the 168 room hotel and commercial area.

Restructure of arrangements

The Fund was to be paid \$38 million plus GST upon completion of the project from the sale of apartments. Whilst apartments sales have been strong with 60 sold and settled, there remain 25 to be sold.

The arrangement with the purchaser has now been restructured. Based on sales to date and the recent valuation, the total return to the Fund is anticipated to increase from \$38 million to \$43 million once all elements of the project are sold.

Harbour Street Development Pty Ltd is now controlled by Wellington Capital Limited on behalf of the Premium Income Fund. It will retain ownership of the hotel and the apartments which remain for sale, until they are sold.

As part of these new arrangements, Harbour Street Development Pty Ltd has entered into an agreement with a new company operated by the developer, Harbour Street Development Operations Pty Ltd to run the hotel. Constellation Group have entered into an agreement to manage the hotel for a period of 5 years, with a 5 year option. The hotel is now leased by Harbour Street Development Pty Ltd for \$1.2 million per year plus outgoings.

Premium Income Fund

NSX Release: 15 September 2010



The hotel as a standalone asset has been valued on an 'as complete basis' by Landmark White at \$23.5 million. As part of the restructure, there are hurdle periods over the next 5 years, encouraging a sale of the hotel, whereby any sale price above valuation is shared between the Harbour Street Development Pty Ltd and Harbour Street Development Operations Pty Ltd (the operator).

The net realisation to the Premium Income Fund from this transaction, including the apartments, commercial space and the hotel is anticipated to be net \$43 million (assuming the unsold assets are sold at valuations).

The table below sets out the estimated proceeds:

	Settled and contracted assets \$	Assets remaining for sale \$	Total estimated proceeds \$
Estimated proceeds			
Apartments sold and settled (60 apartments)	\$31.22 million	-	\$31.22 million
Apartments sold and yet to settle (4 apartments)	\$2.07 million	-	\$2.07 million
Apartments not yet sold or subject to contract (at valuation) (21 apartments)	-	\$9.33 million	\$9.33 million
Commercial area	-	\$0.825 million	\$0.825 million
Hotel (at valuation)	-	\$23.5 million	\$23.5 million
Total	\$33.29 million	\$33.65 million	\$66.94 million
Less cost to complete including: <ul style="list-style-type: none">completion of 85 apartments and 168 room hotelfitout of 168 hotel roomssales and marketing costslegal feescouncil feesdevelopers profit			\$23.9 million
Gross estimated proceeds			\$43 million

Jenny Hutson, Managing Director of Wellington Capital said 'This restructure is a positive outcome for this asset and the Premium Income Fund. It sees the Premium Income Fund receive an improved return from this significant asset, albeit over time.'

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