



Annual Report

Premium Income Fund

ARSN 090 687 577

30 June 2010

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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). 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, FAICD Mr S R Pitt, CPA, FCIS, MAICD Mrs M A Greaves, LL.B, ACIS
SECRETARY	Mrs M A Greaves
REGISTERED OFFICE	Level 22 307 Queen Street Brisbane Qld 4000
SHARE REGISTRY	Armstrong Registry Limited GPO Box 897 Brisbane Qld 4001
AUDITORS	PricewaterhouseCoopers Australia Riverside Centre 123 Eagle Street Brisbane Qld 4000
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 unit holders' 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 unit holders and those of both employees of the group 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. An external assessment of the Board's policies and procedures, and its effectiveness generally, is conducted by an independent professional consultant at intervals of no more than three years.

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 Hutson and S R Pitt.

Non-audit services

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



Directors' Report

The directors of Wellington Capital Limited, the responsible entity of the Premium Income Fund, present their report together with the financial statements of the Premium Income Fund and its controlled entities ('the Fund'), for the year ended 30 June 2010.

Responsible entity

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

Principal activities

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

The Funds' principal activity for the year was the investment of unit holders' funds in equities, debt instruments, cash and registered mortgages.

The Fund did not have any employees during the year.

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

Directors

The names of the directors of the company at any time during or since the end of the year are:

J J Hutson
S R Pitt
M A 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, FAICD, Age 42

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, a merchant bank with a finance and property focus. Ms Hutson leads the corporate advisory business, which has acted as corporate adviser on over \$1.5 billion in projects in the last 5 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, FCIS, MAICD, Age 66

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 and a fellow of the Chartered Institute of Company Secretaries. 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. A. Greaves, LL.B., ACIS, Age 45

Mrs Greaves was appointed a director in May 2008. She has extensive experience in property based capital raisings including the listing of public companies on various stock exchanges including ASX and NSX. Ms Greaves is a lawyer and has a particular focus in the property and finance industries. She has more than 16 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 Secretary is Mrs Greaves.

Registered Office

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

Review and results of operations

The global financial crisis, which severely affected the valuation and recoverability of the Funds assets during the previous financial years, continued during the current financial period. The Fund has moved to become mortgagee in possession of the underlying security properties in the commercial loan portfolio where borrowers have been unable to meet the repayment requirements stipulated by their finance facilities with the Fund.



Directors' Report

All fund assets have been categorised in relation to their suitability for sale 'as is' or whether significant value uplift can be achieved by further investing in a property and holding it for a longer term. Within the sale 'as is' category, there are some properties that can be sold at a fair market price, while others must be retained as a land bank pending relevant regional market recovery. As with all property sales, timing is crucial. The majority of future cash payments will be sourced from sale of assets in this category.

Within the further investment category are assets that have been identified as the foundation upon which the Fund value will be rebuilt. In each instance, they are significant assets that have the potential to earn income in the near future or are already returning an income to the Fund. Some of these assets require further investment in order to reach that income earning state. The strategy is to seek further investment from appropriate joint venture partners selected on a project by project basis, where the Fund will incur no interest bearing debt nor invest further Unitholder's money into completion of the project. However, by undertaking the joint venture project, the carrying value of each asset will be substantially improved.

Asset backed securities, managed investment schemes and fixed interest securities in which the Fund has investments, recorded a decline in their market values in line with the general decline in investment markets around the world.

It is the directors' intention to continue to manage the asset portfolio and cash flows so as to maximise the net asset backing of a unit. The Fund's continuing focus is on the rebuilding of unit value. This will be achieved through a combination of further development of selected existing assets, selected realisations and with measured new investments aimed at rebalancing the asset class allocations of the Fund in time.

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

Results

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

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Net operating profit/(loss) attributable to unit holders	(34,449)	(39,356)

Premium Income Fund has not paid a cash payment to unit holders during the year. The subsidiary has made a distribution to the non-controlling entity

The Fund had total net assets valued at \$265.3 million as at 30 June 2010 (2009 - \$296.4 million). The basis for valuation of the Fund's assets is contained in Note 2 of the financial statements.

Significant change in the state of affairs

The Fund continued to invest primarily in equity, debt instruments and mortgage loans during the year ended 30 June 2010.

The asset allocation of the Fund is as follows:

	Year Ended	
	30 June 2010	30 June 2009
Mortgage Loans	70.1%	73.6%
Managed Investment Schemes	1.7%	1.2%
Alternative Investments	21.4%	21.0%
Cash Investments	5.4%	0.1%
Fixed Interest Investments	1.4%	4.1%

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.



Directors' Report

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of financial year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected or may significantly affect:

- the operations of the Fund in future financial years; or
- the results of the operations in future financial years; or
- the state of affairs of the Fund in future financial years.

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.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Interests of the responsible entity

Neither the responsible entity, nor any of its associates, held any interests in the Fund during, or since, the financial year.

Indemnity and insurance of officers

No insurance premiums were paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Wellington Capital Limited or the auditors of the Fund. So long as the officers of Wellington Capital Limited act in accordance with the Fund's constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnity of auditors

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

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

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

Fees paid to the responsible entity and its associates out of the 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.

At the meeting of unit holders held on 15 October 2008 it was resolved that the Manager would be paid a management fee of 0.7% per annum calculated on the value of funds under management. It was agreed by the Manager that no fees would be charged, or become payable, until cash payments to unit holders totalling 3 cents per unit had been made. During the financial year no management fees were charged to, or paid by, the Fund to the Manager.

Interests in the Fund

The movement in units on issue on the Fund during the year is disclosed in Note 925 of the Financial Statements.

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

Environmental regulation

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



Directors' Report

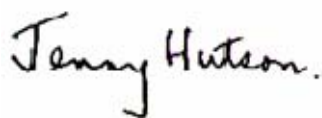
Rounding of amounts to the nearest thousand dollars

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 and financial 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.



Jenny Hutson
Director



Robert Pitt
Director

Brisbane
15 September 2010



Auditors Independence Declaration



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Auditor's Independence Declaration

As lead auditor for the audit of the Premium Income Fund for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Premium Income Fund and the entities it controlled during the period.

Timothy J Allman
Partner
PricewaterhouseCoopers

Brisbane
15 September 2010

Liability limited by a scheme approved under Professional Standards Legislation



Consolidated Statement of Comprehensive Income

		Year Ended	
	Note	2010 \$000's	2009 \$000's
REVENUE FROM CONTINUING OPERATIONS			
Development and construction revenue	3	27,647	-
Interest income	4	2,853	3,032
Revenue from continuing operations		30,500	3,032
INVESTMENT INCOME			
Net gain/(loss) on financial instruments designated as at fair value through profit or loss		(8,591)	(8,087)
Net gain / (loss) on mortgage loans	14	(27,336)	(7,654)
Net gain/(loss) on other financial assets	12	(8,801)	(20,673)
Investment income	5	63	157
Other operating income	6	611	940
Total revenues and investment income/(loss)		(13,554)	(32,285)
EXPENSES			
Cost of development construction and property sales	7	15,962	-
Responsible entity's fees	19	-	-
Custodian and registry fees		598	928
Fees and commission expense		69	48
Auditor's remuneration	8	98	334
Finance costs		900	2,681
Professional and consulting fees		2,740	2,997
Insurance		133	(536)
Administration expenses		395	619
Total operating expenses		20,895	7,071
Operating profit/(loss)		(34,449)	(39,356)



	Note	Year Ended	
		2010 \$000's	2009 \$000's
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		(34,449)	(39,356)
Profit attributable to:			
Unitholders		(35,532)	(39,356)
Non-controlling interest		1,083	-
		(34,449)	(39,356)
EARNINGS PER UNIT ATTRIBUTABLE TO UNIT HOLDERS			
Basic earnings/(loss) per unit	25	(0.05)	(0.05)
Diluted earnings/(loss) per unit	25	(0.05)	(0.05)

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



Consolidated Balance Sheet

		Year Ended	
	Note	30 June 2010 \$000's	30 June 2009 \$000's
ASSETS			
Cash and cash equivalents		12,358	445
Other financial assets	10	57,375	62,486
Receivables	11	5,321	109
Financial assets held at fair value through profit or loss	12	8,278	15,802
Inventory	13	38,642	-
Mortgage loans	14	149,006	219,502
TOTAL ASSETS		270,980	298,344
LIABILITIES			
Payables	15	5,678	1,993
TOTAL LIABILITIES		5,678	1,993
NET ASSETS		265,302	296,351
EQUITY			
Contributed equity		334,340	334,340
Non-controlling interest	16	4,483	-
Retained losses		(73,521)	(37,989)
TOTAL EQUITY		265,302	296,351

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

Capital risk management

The Fund considers its contributed equity as capital. All applications for redemption are currently suspended to allow the responsible entity to discharge its duties in the best interest of unitholders. There are no externally imposed capital requirements.



Consolidated Statement of Changes in Equity

	Note	Issued Capital	Retained Earnings	Non- controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
YEAR ENDED 30 JUNE 2009		334,340	(37,989)	-	296,351
Units issued		-	-	3,800	3,800
Net profit/(loss) for the period		-	(35,532)	1,083	(34,449)
Distributions paid to date		-	-	(400)	(400)
YEAR ENDED 30 JUNE 2010		334,340	(73,521)	4,483	265,302



Consolidated Statement of Cash Flow

		Year Ended	
	Note	30 June 2010 \$000's	30 June 2009 \$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and investment income received		3,527	4,747
Gross proceeds from property sales		29,826	-
Costs and payments to suppliers of properties sold		(16,989)	-
Other cash payments in the course of business		(4,840)	(7,363)
Net cash inflow/(outflow) from operating activities	20	11,524	(2,616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Mortgage loan advances		(9,520)	(5,436)
Mortgage loan repayments		10,309	55,093
Purchase of investments in managed investment schemes		-	(2,131)
Redemptions of investments in managed investment schemes		-	349
Other investments sold		-	11,694
Net cash inflow/(outflow) from investing activities		789	59,569
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for redemptions by unit holders		-	(75)
Distributions paid		-	-
Distributions paid to non-controlling interest		(400)	-
Repayment of borrowings and borrowing costs		-	(57,692)
Net cash inflow/(outflow) from financing activities		(400)	(57,767)
Net increase/(decrease) in cash and cash equivalents		11,913	(814)
Cash and cash equivalents at beginning of year		445	1,259
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	12,358	445



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Notes to the financial statements

NOTE 1. CORPORATE INFORMATION

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

The responsible entity of the Premium Income Fund is Wellington Capital Limited. The responsible entity's registered office is Level 22, 307 Queen Street, Brisbane, Qld, 4000. The financial report is presented in Australian currency.

The financial statements were authorised for issue by the directors on 15 September 2010. The directors of the responsible entity have the power to amend and reissue the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These general purposes consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001 in Australia.

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

On 28 June 2010, the *Corporations Amendments (Corporate Reporting Reform) Act 2010* received Royal Assent. The amendments made a number of improvements to the reporting requirements, including removing the requirement to present separate parent entity financial statements in financial reports of a consolidated entity. As a result of the amendments, the consolidated financial statements no longer show separate columns and associated note disclosures for the parent entity. Instead, the *Corporations Regulations* now prescribe limited disclosures that have been made in the notes to the financial statements, which includes disclosures of key information for the parent entity and commitments.

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

Compliance with International Financial Reporting Standards (IFRS)

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

Financial Statement Presentation

The Fund has applied the revised AASB101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Fund had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Fund the parent entity and its controlled entities. A list of the controlled entities is contained in Note 16. All controlled entities have a 30 June year end.

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

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



Notes to the Financial Statements (Continued)

(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 investments and fixed interest securities, equity instruments and units in managed investment schemes.
Financial assets and financial liabilities designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the manager to evaluate the information about these financial assets on a fair value basis together with other related financial information.
- Mortgage Loans and Other Financial Assets
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of selling the receivables.

(ii) Recognition/derecognition

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

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

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

(iii) Measurement

Financial instruments are held at fair value through profit or loss.

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 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.



Notes to the Financial Statements (Continued)

(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.

(c) **Going concern**

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe the Fund will be able to pay its obligations as and when they become due and payable and continue in operation without any intention, or necessity, to liquidate or otherwise wind up its operations. As such, the basis of preparation of the financial report on an on going basis is appropriate.

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

The 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 reduced significantly.

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. Whilst this represents the best estimates of fair values as at the balance sheet date, the current market uncertainty means that if a property is sold in future, the price achieved may differ from the most recent valuation, or the fair value recorded in the financial statements.

(e) **Distribution policy**

Distributions paid or payable by the Premium Income Fund are suspended. However, the subsidiary of the Premium Income Fund paid a distribution to the Non-controlling interest entity (detailed in Note 9).

(f) **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, and bank overdrafts. Bank overdrafts are shown within borrowings in the balance sheet.

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

(g) **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.



Notes to the Financial Statements (Continued)

Revenue is recognised for the major business activities as follows:

(i) *Development and Construction Revenue*

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

(ii) *Interest income*

Interest ceases to be accrued on non-performing loans when the directors consider that recovery of the full amount of principal and interest is unlikely. Interest income on performing loans is recognised in the Consolidated Statement of Comprehensive Income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income is recognised on a gross basis, including withholding tax, if any.

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(iii) *Investment income*

Distributions from managed investment schemes and fixed interest securities are recognised on a cash basis and is thus accounted for in the period to which the income relates.

Revenue from dividends and distributions from other investments is recognised at the earlier of declaration or receipt.

(iv) *Realised profit and loss on sale*

The gain or loss on disposal of current investment assets is recognised as income or expense 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).

(h) Expenses

All expenses, including responsible entity's fees and custodian's fees, are recognised in profit and loss on an accruals basis. Construction expenses included directly attributable expenses and developments and inventory items.

(i) Income Tax

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

(j) Inventory

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



Notes to the Financial Statements (Continued)

(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 Consolidated Statement of Comprehensive Income inclusive of GST. For the controlled-entity, expenses have been recognised in the Consolidated Statement of Comprehensive Income net of GST. Cash flows relating to GST are included in the Consolidated Statement of Cash Flows on a gross basis.

(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.

Change in accounting policy

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis used for internal reporting purposes. The new standard has not affected operations and as such no change to reporting.

(n) Rounding of amounts

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

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Fund's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the reclassification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the requisition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available for sale debt investments, for example, will therefore have to be recognised directly in profit and loss. The Fund has not yet decided when to adopt AASB 9. However, management has not yet assessed the impact on the financial statements.

(ii) *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the annual improvements project (AASB 5, 8, 101, 107, 117, 118, 136 and 139)*

In May 2009 the AASB issued a number of improvements to *AASB 5 Non-current Assets held for Sale and Discontinued Operations*, *AASB 8 Operating Segments*, *AASB 101 Presentation of Financial Statements*, *AASB 1 Statement of Cash Flows*, *AASB 117 Leases*, *AASB 118 Revenue*, *AASB 136 Impairment of Assets* and *AASB 139 Financial Instruments, Recognition and Measurement*. The Fund will apply the revised standards from 1 July 2010. The Fund does not expect that any adjustments will be necessary as a result of applying the revised rules.

(iii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised *AASB 124 Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies and simplifies the definition of a related party. The Fund will apply the amended standard from 1 July 2011. When the amendments are applied, the Fund would need to disclose any transactions between its subsidiaries and its associates.



Notes to the Financial Statements (Continued)

- (iv) AASB 2009-8 Group Cash-settled Share Based Payment Transactions, AASB 2009-10 Classification of Rights Issues, AASB Interpretation – Extinguishing financial liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from AASB Interpretation and AASB 2009-14 Payments of a Minimum Funding Requirement. The Fund will adopt the applicable standards when they apply. However, management has not yet assessed the impact on the financial statements.

NOTE 3. DEVELOPMENT AND CONSTRUCTION REVENUE

	Year Ended	
	30 June 2010	30 June 2009
	\$000's	\$000's
Property sales	27,647	-
	27,647	-

The Controlled Entity completed the development and construction of the Harbour Street Wollongong project and proceeded to sell the units. At balance date, 53 units have been sold and settled with a further 7 units sold subsequently. Sales achieved to date have been in line with projections and forecasts.

NOTE 4. INTEREST INCOME

	YEAR ENDED	
	30 June 2010	30 June 2009
	\$000's	\$000's
Cash and cash equivalents	93	23
Financial assets held at fair value	819	906
Mortgage loans	1,700	964
Other Financial Assets	241	1,139
	2,853	3,032

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

The contracted interest rates for mortgage loans range from 9.2% to 16.25% (2009: 9.2% to 16.25%). In accordance with the accounting policy in Note 2(g), the effective interest rate calculation may lead to a different amount of interest recorded in the Consolidated Statement of Comprehensive Income to the contracted interest rate.

The contracted interest rates for Other Financial Assets range from 9.0% to 12.25% (2009: 9.0% to 12.25%). In accordance with the accounting policy in Note 2(g), the effective interest rate calculation may lead to a different amount of interest recorded in the Consolidated Statement of Comprehensive Income to the contracted interest rate.

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

NOTE 5. INVESTMENT INCOME

	Year Ended	
	30 June 2010	30 June 2009
	\$000's	\$000's
Equity securities	63	157
	63	157

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



Notes to the Financial Statements (Continued)

The returns for investments in managed investment schemes range from 6.08% to 17.48%. (2009: 6.08% to 17.48%). In accordance with the accounting policy in Note 2(g) the effective interest rate calculation may lead to a different amount of interest recorded in the Consolidated Statement of Comprehensive Income to the contracted interest rate.

NOTE 6. OTHER OPERATING INCOME

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Mortgage loan fees	-	280
Rent income	128	34
Sundry income	483	626
	611	940

NOTE 7. COST OF DEVELOPMENT, CONSTRUCTION AND PROPERTY SALES

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Marketing and selling costs	1,599	-
Development and project management costs	11,289	-
Government charges and fees	3,074	-
	15,962	-

NOTE 8. AUDITORS' REMUNERATION

	Year Ended	
	30 June 2010 \$	30 June 2009 \$
<i>Audit services:</i>		
Audit & review services	73,000	70,400
Compliance plan audit services	3,475	32,500
<i>Non-audit services:</i>		
Other services provided by PricewaterhouseCoopers Australia	-	107,030
Tax services	21,865	124,423
Total remuneration	98,340	334,353

PricewaterhouseCoopers Australia perform the Fund audit and review. WHK Horwath perform the Compliance Audit.



Notes to the Financial Statements (Continued)

NOTE 9. DISTRIBUTIONS TO UNITHOLDERS

The Fund had a contractual arrangement with Octaviar Limited (the "Octaviar Support Facility") whereby it could call upon funds from Octaviar Limited in the event the Fund did not earn sufficient income to meet distributions to investors at the target rates of return. On 26 February 2008, the Fund exercised its rights and called upon these funds. Due to the ongoing liquidation of Octaviar Limited, it is not possible to determine whether any recovery will be possible under this claim, nor the timing of any possible recovery. No amount has been recognised in the financial statements for any recovery as the directors consider that it is doubtful.

NOTE 10. OTHER FINANCIAL ASSETS

Asset backed investments

Provision for impairment

Written down value of asset backed investments

Year Ended	
30 June 2010 \$000's	30 June 2009 \$000's
206,729	212,257
(149,354)	(149,771)
57,375	62,486

Reconciliation of Provision for Impairment – Other Financial Assets

Balance at the beginning of the financial year

Net gain/(loss) on other financial assets

Impairment provision reversed during the year

Balance at the end of the financial year

Year Ended	
30 June 2010 \$000's	30 June 2009 \$000's
149,771	171,693
8,801	20,673
(9,218)	(42,595)
149,354	149,771

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

- Secured debt facilities; and
- Direct equity investments for capital growth.

Investment opportunities in this class of asset are closely related to those in which the responsible entity has some direct investment expertise. Asset backed investments are generally limited to investments that are secured debt facilities of a commercial nature possessing a character closely approximating that of a commercial loan portfolio

NOTE 11. RECEIVABLES

Trade receivables

Other debtors

GST receivable

Year Ended	
30 June 2010 \$000's	30 June 2009 \$000's
-	109
4,630	-
691	-
5,321	109



Notes to the Financial Statements (Continued)

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

	Year Ended	
	30 June 2010	30 June 2009
	\$000's	\$000's
Equity securities	4,598	3,591
Fixed interest securities	3,680	12,211
	8,278	15,802

NOTE 13. INVENTORY

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

	Year Ended	
	30 June 2010	30 June 2009
	\$000's	\$000's
Finished goods valued at cost	38,642	-
	38,642	-

NOTE 14. MORTGAGE LOANS

	Year Ended	
	30 June 2010	30 June 2009
	\$000's	\$000's
Mortgage loans	204,442	283,040
Provision for impairment	(55,436)	(63,538)
Written down value of mortgage loans	149,006	219,502

Mortgage loans are secured by registered mortgages. The recoverability of mortgage loans has been unfavourably affected by the tightening in global credit markets and a general decline in property valuations across Australia. As loans fall into default, the interest charges cause the loan balance to increase beyond prudent property valuations. Interest is capitalised to the loans in accordance with the accounting policy at Note 2(g).

With the assistance of independent advisors, 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 asset's value is impaired, an impairment provision is recognised in the Financial Statements.

In assessing the recoverable amount of each mortgage loan, the directors, aided by their external advisors, have considered the following evidence wherever it is available:

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



Notes to the Financial Statements (Continued)

- the loan status (performing / non-performing etc.).

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

Reconciliation of Provision for Impairment – Mortgage Loans

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Balance at the beginning of the financial year	63,538	85,698
Provision for impairment recognised during the year	27,336	119
Assets realised during the year	(35,438)	(22,279)
Balance at the end of the financial year	55,436	63,538

NOTE 15. PAYABLES

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Trade payables	1,385	926
Accrued expenses	1,187	965
GST payable	3,106	102
	5,678	1,993

NOTE 16. NON-CONTROLLING INTEREST

	Consolidated Year Ended		Parent Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's	30 June 2010 \$000's	30 June 2009 \$000's
Contributed Equity	3,800	-	-	-
Net profit / (loss) for the period	1,083	-	-	-
Distributions paid	(400)	-	-	-
Non-controlling interest	4,483	-	-	-

The Premium Income Fund has a 90% controlling interest in the entity used in completion of the development at Harbour Street, Wollongong. The non-controlling interest represents the equity introduced in order to complete to the project.

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

Name of entity	Country of Incorporation	Class of unit	Unitholding	
			30 June 2010	30 June 2009



Notes to the Financial Statements (Continued)

NOTE 17. PARENT ENTITY FINANCIAL INFORMATION

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

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

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

(b) Financial guarantees

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

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

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Balance Sheet		
Total assets	254,506	298,344
Total liabilities	1,687	1,993
Net Assets	252,819	296,351
Equity		
Contributed equity	334,340	334,340
Retained losses	(81,521)	(37,989)
	252,819	296,351
Total Comprehensive Income / (Loss) for the year	(43,532)	(39,356)

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, \$170 million (2009: \$240.5 million) of the mortgage loans are impaired and non-performing, whilst \$33.3 million (2009: \$36.1 million) are 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)

Maximum exposure to credit risk:

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Mortgage loans renegotiated	-	6,355
Non-performing mortgage loans with no impairment	33,388	36,138
Non-performing mortgage loans with impairment	170,454	240,547
Total maximum exposure to credit risk	203,842	283,040
Collateral held	149,006	219,502
Collateral held as Mortgagee in Possession	131,401	203,146

Collateral held comprises, first or second mortgages over subject property and personal guarantees from borrowers. Non-performing Mortgage Loans have been written-down to the value of the collateral held.

Ageing Analysis:**Non-performing mortgage loans with no impairment**

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Past due 1-3 months	-	-
Past due 4-6 months	-	-
Past due greater than 6 months	33,388	36,138
	33,388	36,138

Non-performing mortgage loans with impairment

Past due 1-3 months	-	-
Past due 4-6 months	-	76,053
<i>Past due greater than 6 months</i>	170,454	164,494
	170,454	240,547

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 unit holders and may occur after 12 months.

In addition to mortgage loans, the Fund holds other financial assets of \$57m (2009 \$62m). These are fully secured except for \$18m of unsecured investments. As such, the maximum credit risk to the fund is represented by the written down value of \$57m.

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 +/- 100 basis points from the year end rates, net profit would have varied by +/- \$0.124m respectively.



Notes to the Financial Statements (Continued)

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.

2010	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non- interest bearing (\$000's)	Total (\$000's)
Financial Assets					
Cash and cash equivalents	3.01	12,358	-	-	12,358
Asset backed investments	-	-	39,078	18,297	57,375
Trade & other receivables	-	-	-	5,321	5,321
Equity securities	-	-	4,598	-	4,598
Fixed interest securities	-	-	3,680	-	3,680
Mortgage loans	-	-	149,006	-	149,006
Total Assets		12,358	196,362	23,618	232,338
Financial Liabilities					
Trade & other payables	-	-	-	5,678	5,678
Total Liabilities	-	-	-	5,678	5,678

Note - 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(g)).

2009	Weighted average interest rate (% pa)	Floating interest rate (\$000's)	Fixed interest rate (\$000's)	Non- interest bearing (\$000's)	Total (\$000's)
Financial Assets					
Cash and cash equivalents	2.43	445	-	-	445
Asset backed investments	-	-	44,486	18,000	62,486
Trade & other receivables	-	-	-	109	109
Equity securities	-	-	3,591	-	3,591
Fixed interest securities	-	-	12,211	-	12,211
Mortgage loans	-	-	219,502	-	219,502
Total Assets		445	279,790	18,109	298,344
Financial Liabilities					
Trade & other payables	-	-	-	1,993	1,993
Total Liabilities	-	-	-	1,993	1,993

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 no exposure to foreign currency risk.



Notes to the Financial Statements (Continued)

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.

2010	Less than 1 month \$000's	1–6 months \$000's	6–12 months \$000's	1–2 years \$000's
Trade & other payables	5,678	-	-	-
	5,678	-	-	-

2009	Less than 1 month \$000's	1–6 months \$000's	6–12 months \$000's	1–2 years \$000's
Trade & other payables	1,993	-	-	-
	1,993	-	-	-

Fair value hierarchy

The Fund has adopted the amendments to AASB 7 *Financial Instruments: Disclosures*, effective 1 July 2009. This requires the Fund to classify 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 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.



Notes to the Financial Statements (Continued)

2010	Level 1 \$000's	Level 2 \$000's	Level 3 \$000's	Total \$000's
Financial Assets				
Financial Assets designated at fair value through profit or loss				
- Equity securities	-	4,598	-	4,598
- Fixed interest securities	3,680	-	-	3,680
Total	3,680	4,598	-	8,278

Investments whose values are based on quoted market prices in active markets are therefore classified within level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2.

Mortgage loans and Asset backed investments are at amortised cost 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. During the period preceding that date, the responsible entity was Wellington Investment Management Limited.

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 ("KMP") 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 Manager, Wellington Capital Limited, meets the definition of KMP. There are no other KMPs.

Controlled Entity

The Fund has a 90% controlling interest in the Controlled Entity as detailed in Note 16. The Fund has transacted with the Non-Controlling interest by way of reimbursing for costs properly incurred and charged to the Fund. All transactions have been on a commercial arms-length basis.

Year Ended	
30 June 2010 \$	30 June 2009 \$

Responsible Entity's Fees and Other Transactions

Management fees for the year by the Fund to the responsible entity.

- Wellington Investment Management Limited	-	-
- Wellington Capital Limited	-	-

Aggregate amounts payable to the responsible entity at the reporting date

Responsible Entity

- Wellington Capital Limited	-	-
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Notes to the Financial Statements (Continued)

Related party schemes' unit holdings

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 2010

	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	84,429,893	41,114,196	5.4	-	43,315,697	-

Year ended 30 June 2009

	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	84,429,893	84,429,893	11.2	-	-	-

Units in 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 be offered as consideration on a one for one basis.

Key management personnel compensation

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

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

	Year Ended	
	30 June 2010 \$000's	30 June 2009 \$000's
Net profit/(loss)	(34,449)	(39,356)
Net unrealised (gain)/loss on financial instruments designated as fair value through profit or loss	21,804	5,682
Net gain / (loss) on mortgage loans	22,247	30,732
Decrease/(increase) in receivables	(1,072)	671
(Decrease)/increase in payables	2,994	(345)
Net cash inflow/(outflow) from operating activities	11,524	(2,616)

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:



Cash and cash equivalents

12,358

445

Notes to the Financial Statements (Continued)

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. 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

No circumstances have arisen since the end of the financial year which have significantly affected the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

NOTE 23. OCTAVIAR LIMITED SUPPORT FACILITY

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

NOTE 24. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

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

NOTE 25. EARNINGS PER UNIT

	Year Ended	
	30 June 2010 1000's	30 June 2009 1000's
Net profit/(loss) used in calculating basic and diluted earnings per unit (\$)	(34,449)	(39,356)
The weighted average number of units on issue	755,032	755,032
The weighted average number of units and potential units used in calculating diluted earnings per unit	755,032	755,032

The fund was listed in the 2009 financial year.



Directors' Declaration

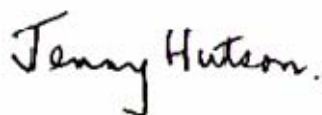
In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 2 to 31 are in accordance with the Corporations Act 2001, including
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 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 2010 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer 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.



Jenny Hutson
Director



Robert Pitt
Director

Brisbane
15 September 2010



Independent Audit Report



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

Report on the financial report

We have audited the accompanying financial report of Premium Income Fund (the Fund), which comprises the consolidated balance sheet as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fund. The consolidated entity comprises the 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 the Wellington Capital Limited, the responsible entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Liability limited by a scheme approved under Professional Standards Legislation





**Independent auditor's report to the members of
the Premium Income Fund (continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

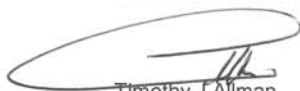
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the Premium Income Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

PricewaterhouseCoopers
PricewaterhouseCoopers


Timothy J Allman
Partner

Brisbane
15 September 2010

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Supplementary information required by the Stock Exchange Listing Rules

Top 10 Unit Holders as at 31 August 2010

Name	Number of units held	% of Total
1. Perpetual Nominees Ltd <Wholesale Premium Income Fund>	41,114,196	5.02
2. IOOF Investment Management Ltd <IOOF Portfolio Service>	16,902,638	2.24
3. Equity Trustees Ltd <Accumulation Account>	4,000,000	0.53
4. Equity Trustees Ltd <Allocated Pension Account>	4,000,000	0.53
5. Mercedes Holdings Pty Ltd	3,631,444	0.48
6. ANZ Nominees Limited	2,949,934	0.39
7. Max Investments (Aust) Pty Ltd	2,591,872	0.34
8. Gross S & T Pty Ltd <S & T Gross Superannuation Fund>	2,500,000	0.33
9. Mansted Enterprises Pty Ltd <Mansted Enterprises S/F A/C>	2,180,000	0.29
10. Labation Pty Ltd	2,078,488	0.28

Comparative results, assets and liabilities for the last five years

	2010	2009	2008	2007	2006
	\$000's	\$000's	\$000's	\$000's	\$000's
Net operating profit/(loss)	(34,449)	(39,356)	(379,283)	66,907	53,804
Assets	270,980	298,344	395,723	886,664	711,587
Liabilities (excluding net assets attributable to unit holders)	5,678	1,993	59,941	6,573	6,792

