

# Premium Income Fund

## Investor Update: 31 August 2010



Issue 2, 2010

Welcome to the Investor Update for the Premium Income Fund. This update outlines key details about the Fund's activities for the period May 2010 to August 2010.



I am pleased to report that construction of the Wollongong project, the Chifley Wollongong, progresses well, and the hotel opened on 1 September 2010. This transaction has been restructured to maximise the outcome for the Fund from this 85 apartment, 168 hotel room project.

Marketing of the Port Macquarie project, 'Icon Port' continues through local agents.

A cash payment of \$7.55 million, representing 1 cent per unit, will be made to all unitholders on 29 October 2010. Further details follow in this Update.

It remains a challenging time. My team continues to focus on finding ways to maximise the value of the underlying assets of the Fund.

Kind regards

**Jenny Hutson**  
Managing Director  
Wellington Capital Limited

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

### Key events:

- Audited Annual Financial Report for period ended 30 June 2010 confirms net assets of Premium Income Fund at \$265,305,000, making the net asset backing of a unit in the Premium Income Fund **35.1 cents per unit**. The net asset backing has remained unchanged since the Interim Financial Report for the period ended 31 December 2010.
- Construction continues at the Wollongong development. 60 apartments have been sold and settled. 24 apartments remain on the market.
- Marketing of the Port Macquarie continues.
- The liquidators of Octaviar Limited, Bentleys Corporate Recovery, continue public examinations of the officers of the Octaviar Group.
- Off market takeover bid made for units in the Premium Income Fund. The Directors recommend this offer is **REJECTED**.

### Taxation Statements

Taxation statements have been prepared and distributed to all unitholders holding units in the Premium Income Fund as at 30 June 2010.

### Annual Financial Report

The Annual Financial Report for the period ended 30 June 2010 has now been released. This audited report sets out in detail the financial position of the Premium Income Fund as at 30 June 2010. The Report is available online, and a hard copy accompanies this mailed Investor Update.

### Cash Payments

#### Premium Income Fund to make \$7.55 million cash payment to unitholders

Wellington Capital Limited as responsible entity of the Premium Income Fund is pleased to announce the Fund will make a \$7.55 million cash payment to its unitholders representing 1 cent per unit:

Record Date	Ex-Payment Date	Payment Date
1 October 2010	27 September 2010	29 October 2010

Unitholders holding units as at the record date of 27 September 2010 will receive a 1 cent per unit payment. Unitholders who transfer their units before the Ex-Payment Date will receive the cash payment. Unitholders who transfer their units after the Ex-Payment Date will not receive the cash payment.

Managing Director, Jenny Hutson said: 'This payment has been made possible through the completion and sale of a number of the underlying security properties in relation to the loans advanced on the Port Macquarie and Wollongong facilities. The Fund has had to arrange for the completion and sale of underlying properties to achieve this outcome. I am pleased that we are able to make this first cash payment to unitholders. Additional payments will be made with sales are finalised.

Our 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.'

### Management Fees

No funds management fees have been paid to or accrued by Wellington Capital Limited as responsible entity of the Premium Income Fund. An undertaking was provided to the Supreme Court of Queensland and the Australian Securities and Investments Commission in September 2008 that the responsible entity will only charge a funds management fee of 0.7% per annum on funds under management after Unitholders are in receipt of the cash payments totalling 3 cents per unit.



## REJECT TAKEOVER OFFER FOR PREMIUM INCOME FUND UNITS MADE BY ALF PIF FINANCE LIMITED

A takeover offer seeking to purchase all of the units in the Premium Income Fund was received on 17 May 2010.

All unitholders will have received the Target's Statement prepared by Wellington Capital Limited as responsible entity of the Premium Income Fund, and the Bidder's Statement prepared by ALF PIF Finance Limited.

The Wellington Capital board unanimously recommends that you **REJECT** this offer as



- ✗ The proposal shifts over \$120 million of the current value in the Premium Income Fund to the current Bidder's shareholders and away from you.
- ✗ The Bidder is currently valued at only \$1,600, was incorporated on 5 May 2010 and has no track record.
- ✗ 80% of the ordinary shares will be owned by the Bidder's current shareholders not by you, the Premium Income Fund unitholders.
- ✗ The Bidder's future proposal for your Fund involves debt again.
- ✗ Your investment will be illiquid again.

### Unitholders should take no action

The Wellington Capital board unanimously recommends that you reject the unsolicited and highly conditional scrip bid by the Bidder as it is not in the best interests of unitholders.

The takeover bid offers 0.1 share and 0.5 redeemable preference shares in the Bidder for each unit in the Premium Income Fund in a company with no trading history and less than \$2,000 in assets.

**The Board of Wellington Capital recommend that all Premium Income Fund unitholders REJECT the Bidder's offer.**

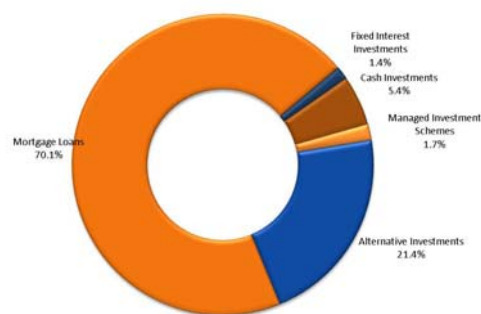
'The offer is grossly inadequate. The proposal seeks to shift over \$120 million in unitholders' current value to the Bidder's current shareholders. The Wellington Capital board believes that the approach by the Bidder is opportunistic and is at a price that does not reflect in any way the current value of Premium Income Fund units.'

### Unitholders should not act on any communications from the Bidder.

As at 31 August 2010, the Bidder has obtained acceptances in relation to 1,920,799 units in the Premium Income Fund, or 0.25% of the total units on issue. Updates in relation to the acceptances received by the Bidder are lodged with the NSX and available at [www.nsx.com.au](http://www.nsx.com.au).

## Fund Portfolio

Asset allocation as at 30 June 2010



### Strategy maintained

The recovery strategy for the Fund continues to be implemented in accordance with the strategies outlined in previous updates.

Following this strategy has enabled finalisation of Icon Port at Port Macquarie and the Chifley Hotel at Wollongong, together with the apartments forming a separate part of the same project.

### Commercial Loan Portfolio

The Fund remains mortgagee in possession of a number of commercial loans where the borrower has defaulted and the Fund has exercised its right to take control of the underlying security property.

As mortgagee in possession, the Fund must take a number of steps to control the property. This extends to the payment of rates and land tax on each property.

Where the underlying security property is an operational business, such as the Forest Resort Hotel at Creswick, the Fund has an obligation to continue operating the business in order to ensure that the value of the underlying security property is not diminished.

Where an underlying security property is not operational or complete, the Fund is taking steps to ensure the physical security of the property is preserved.

### Wollongong – Chifley Wollongong

#### 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.

### Restructure of arrangements

The Fund was to be paid \$38 million plus GST upon completion of the project from the sale of apartments. Whilst apartment 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.

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 gross estimated proceeds:

	Settled and contracted assets	Assets remaining for sale \$	Total estimated proceeds \$
\$			
<b>Estimated proceeds</b>			
Apartments sold and settled (60 apartments)	\$31.22 m	-	\$31.22 m
Apartments sold and yet to settle (4 apartments)	\$2.07 m	-	\$2.07 m
Apartments not yet sold or subject to contract (at valuation) (21 apartments)	-	\$9.33 m	\$9.33 m
Commercial area	-	\$0.825 m	\$0.825 m
Hotel (at valuation)	-	\$23.5 m	\$23.5 m
<b>Total</b>	<b>\$33.29 m</b>	<b>\$33.65 m</b>	<b>\$66.94 m</b>
Less cost to complete including:			
<ul style="list-style-type: none"> <li>completion of 85 apartments and 168 room hotel</li> <li>fitout of 168 hotel rooms</li> <li>sales and marketing costs</li> <li>legal fees</li> <li>council fees</li> <li>developers profit</li> </ul>			\$23.9 m
<b>Gross estimated proceeds</b>			<b>\$43 m</b>

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.'





## Octaviar Update

### Public Examinations

Public examinations of the officers of Octaviar Limited (In Liquidation) and Octaviar Administration Pty Ltd (In Liquidation) by the Liquidators continue in the Supreme Court of New South Wales. The Fund is not involved in the public examinations.

### Litigation Update

The Fund remains mortgagee in possession of a number of commercial loans where the borrower has defaulted and the Fund has exercised its right to take control of the underlying security property.

The Fund from time to time is involved in litigation involving the exercise of its power under its first ranking mortgage to take control of an underlying security property or the borrower itself. It is not unusual for a defaulting borrower or guarantor to seek to stop the Fund taking control of a security property by instigating legal proceedings or counterclaiming.

The Fund takes its obligation to act in the best interests of its Unitholders seriously and ensures that appropriate representations are made to the Court in each case where a borrower is attempting to hinder the Fund's rights under the terms of its security arrangements.

### ASIC v King & Ors – Supreme Court Proceedings

ASIC has commenced proceedings seeking declarations of contraventions, pecuniary penalties, compensation and disqualifications from managing corporations pursuant to the *Corporations Act 2001* (Cth). These proceedings primarily relate to the events surrounding the drawdown on the finance facility of the Premium Income Fund during 2007. Further announcements will be made as the proceedings progress.

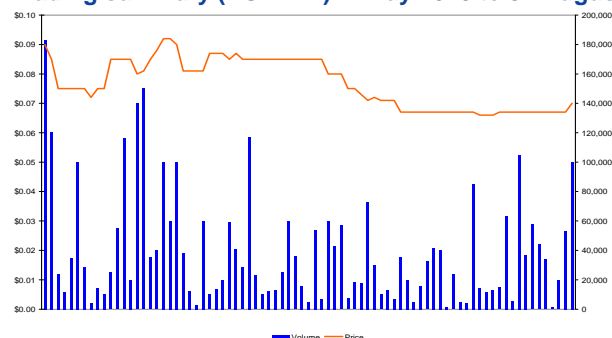
### Bond Street Custodians – Federal Court Proceedings

Bond Street Custodians Limited filed a claim against Wellington Investment Management Limited as responsible entity of the Wholesale Premium Income Fund on 16 October 2008 in relation to a redemption request for 16.254 million units in the Wholesale Premium Income Fund which was lodged on 21 January 2008, shortly prior to the suspension of redemptions.

This matter has been set down for hearing commencing 13 December 2010. Further updates will be provided as the matter progresses.

## National Stock Exchange Update

### Trading summary (NSX:PIN): 1 May 2010 to 31 August 2010



Trading activity from 1 May 2010 to 31 August 2010 was:

High	Low	Volume for period
9 cents	6.6 cents	5,701,943

### Investor Advisory Committee

Correspondence can be sent to the Investor Advisory Committee at [iac@newpif.com.au](mailto:iac@newpif.com.au) or by post to:

Investor Advisory Committee  
C/- Premium Income Fund  
GPO Box 694  
Brisbane Qld 4001

### Report from committee members

"The committee members have met with the Fund's management team to discuss the correspondence received since our last report. This correspondence was tabled with the Fund's management team and discussed at length.

#### Cash payment

The committee discussed the cash payment which Wellington has promised to make during 2010. We have received much correspondence about the timing of this payment, which was discussed with Wellington. We were advised that an update would appear in the next Investor Update.

#### Takeover offer

Of concern was the takeover offer which all unitholders have received from ALF PIF Finance Limited. There was much discussion about the bid, the press which had surrounded the offer made and the reasons why the responsible entity recommends that unitholders reject the offer. We are pleased that there have only been a small number of unitholders who have accepted this offer. We have had reports from some unitholders that they have been contacted directly by ALF PIF, and discussed this with Wellington.

#### Public Examinations

We also discussed the impact of the public examinations with Wellington. Wellington explained that they are not involved with the examinations, but understood that many of the issues being raised are issues that surround our Fund and the loan facility.

#### Investor Updates

We discussed the flow of information from the Fund to investors and how this comes in three forms – by telephone, by NSX release and by mailed investor update three times a year. Many investors have requested we seek monthly mailed investor updates – we were advised that this was not cost effective. Wellington has advised that call flow to the hotline remains consistent, but that there had been an increase in calls around the time of the takeover offer.

We will continue to table your correspondence at our meetings with the Fund's management team and report back to you in the investor updates."

## Contact

### Premium Income Fund

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