



18<sup>th</sup> April 2011

Dear Premium Income Fund (PIF) unitholders,

**RE: Extension of Takeover Offer**

The Board of ALF PIF Finance Limited are writing to you to advise that ALF PIF Finance Limited (ALF PIF) has extended the offer period for its takeover bid for all the units in the Premium Income Fund.

The offer is now scheduled to close at 7pm (AEDT) on Tuesday 14<sup>th</sup> June 2011. A formal notice extending the offer is enclosed with this letter.

The offer is currently open for acceptance by completing and returning the relevant acceptance form enclosed.

Below please find what we believe are compelling reasons why you should accept our offer.

- In the 2 full years since **Wellington** took control, the Premium Income Fund has reported **LOSSES OF \$73,805,000\***.
- **Wellington promised a 3-Cent PAYOUT by the end of 2008\***. To the date, of our extension of offer Wellington is **67% BEHIND** their own self-imposed target.
- **Wellington** told PIF investors to **EXPECT 65c OR MORE VALUE WITHIN 5 YEARS\***. With about 2 years to go what's required is about a 30-cent increase each year. They are **CURRENTLY** about **90% BEHIND** their own projection. How did they get it SO wrong? Do you trust them?
- The market value of all units is less than \$70M i.e. **less than half of the ALF PIF offer**.
- **ALF PIF have the rights to over \$40m in claims against PIF** that will be scrapped when or if the offer is accepted and ALF PIF have control of PIF.
- **ALF PIF has obtained a Litigation Funding offer** so that it can properly bring proceedings against Wellington and or its management should they be found liable to PIF. ALF PIF has an offer of litigation funding so it can properly pursue any and all parties that owe PIF money. The cost is on a no win/no fee basis and the funder takes a percentage of the recovery, thus reducing the need to tie up and or risk PIF's capital.
- Only after receiving notification of the extension of our offer has Wellington Capital, YOUR MANAGER, decided it was worthwhile to provide what they loosely describe as a 'litigation update'. Their update lacks detail and any clarity as to any benefit to unit holders.

- **Wellington** state that despite PIF having a substantial legal claim (in excess of \$140M) against Fortress Capital, they **have done very little to secure the necessary** documents to prosecute PIF's claim and have left this **task to a liquidator**, which will most likely greatly diminish any entitlement or payment to PIF. History has shown that after a liquidator pays out millions of dollars to his lawyers, millions of dollars to his funder and also takes millions of dollars in fees, what's left is a mere fraction of what is initially recovered.
- **Wellington, now want to change their remuneration structure.** For those that are not aware, Wellington is changing the Constitution of PIF without your consent. Do you understand it? Has it been explained? Was a copy of the Deed released to the market? WHAT IS GOING ON?

\* Source: PIF Audited Accounts to 30/6/10 and Courier Mail (18 October 2010).

Some time has elapsed since we filed and lodged our offer to acquire the interests of unitholders in PIF.

ALF PIF have only extended the bid because a number of parties encouraged the directors to do so, as it is abundantly clear that there is little likelihood of current investors in PIF ever getting any reasonable cash out of the existing structure.

Ms Hutson, the founder of Wellington Capital, made remarks that the bid was flawed because ALF PIF was not a publicly listed company and the shares would be illiquid. This we find absurd from the very person who initiated and drove PIF to be listed on the NSX where it now languishes virtually untraded and people who need money currently only have a chance to get less than half of what ALF PIF are offering. Also, the volume is supported by several people buying up enough shares at 6 to 8 cents to either reduce their overall loss by averaging down the total cost of their units or they have blindly accepted Jenny Hutson's moving target of fair value for the shares (wasn't that 65 cents per share?). Ultimately, there has to be a concerted effort to deal with the assets in a credible and commercially viable way.

ALF PIF wants to list on the ASX (subject to normal commercial terms and requirements) and they want to unlock the real value, including possible actions against Wellington itself. Also, ALF PIF will examine the Joint Ventures which seem to have been in default or at least have caused Wellington to 'restructure the Wollongong transaction' (whatever that means), of which Ms Hutson has spoken little about.

You only need to look at the accounts to 30 June 2010 to see the constant shrinkage in your investment. Yet another \$34 million lost.

There can only be one of a couple of scenarios regarding PIF's accounts:

1. The accounts presented to date may be fictitious and the real figures have never been published, in which case investors would have a great class action against Wellington and the PIF auditors, and a claim, if it existed, Australian Litigation Funders Pty Ltd have agreed to fund on a no win/no fee basis or
2. That the accounts reflected at the time were of a true nature as to the value of the assets of PIF and the management have done such a bad job that PIF has lost over \$34 m in 2010 and over \$39 m in the 2009 financial year.

We believe that the management is open to criticism; clearly they cannot blame all of this on MFS management of which Ms Hutson has been somehow linked to previously. Therefore, a proper legal review of their management and decisions is warranted and a class action against the management and possibly their advisors is possible if the management has been negligent. Again, Australian Litigation Funders Pty Ltd have agreed to fund an action on a no win/no fee basis.

We feel that there are way too many issues that have been swept under the carpet and investors have been denied the truth. These issues include but are not limited to:

1. Jenny Hutson's relationship to former MFS directors.
2. The circumstances under which Wellington acquired the rights to manage the PIF fund for no consideration?
3. The Joint Ventures entered into by Wellington, their success, impact on unitholders returns and any possible risk to PIF.
4. What were Ms Hutson's relationships (if any) with the Joint Venture partners?
5. Are any Joint Ventures in default?
6. Why hasn't Wellington properly informed the market about the extent and size of the claims by large disgruntled borrowers after MFS defaulted on their loans? (The Courier Mail mentions \$144,000,000 in claims against PIF). ALF PIF is aware of approximately \$50,000,000 in other potential claims.

These are just a few of many issues that ALF PIF will be looking at carefully. Ms Hutson is well aware that ALF PIF is a related party to Australian Litigation Funders Pty Ltd and that she will be the subject of much scrutiny and her company will, depending on the outcome of our investigations, be sued for an amount potentially far greater than what her Professional Indemnity (PI) insurance coverage will payout and that is if the insurers don't rule that her actions void any PI insurance that she and or Wellington may have.

Jenny Hutson versus Jim Byrnes:

Much of Jenny Hutson's criticism was levelled at Jim Byrnes, his colourful past and his fights with ASIC. Despite the mud throwing by Ms Hutson, Byrnes has had a remarkable career and achieved some miraculous results. Whilst he sometimes comes in for criticism, his positive results and no nonsense, plain talking common sense approach have and continue to produce excellent results.

We are of the view that Ms Hutson used these tactics to divert the attention from the real truth and the fact that we believe that her firm has done a bad job and made bad decisions whilst in control of PIF. PIF unit holders continue to pay for these poor decisions. (Source: PIF Audited accounts in any year since Wellington Capital Limited took over the management of PIF).

Jenny Hutson has and will continue to use PIF's money every time there is any criticism of her or any potential conflict with PIF. She has stated that she is indemnified out of PIF's assets for any costs she feels appropriate to incur.

ALF PIF have received an offer from Australian Litigation Funders Pty Ltd to provide litigation funding to pursue all avenues of recovery against Wellington, borrowers and other parties on a no win/no fee basis. Litigation funders normally earn fees of between 25% to 50% of the amount recovered. ALF PIF has negotiated a flat commission rate of 33%.

Wellington and Ms Hutson have made much noise regarding the capitalisation of ALF PIF. ALF PIF was incorporated in order to make this bid. We wish to advise that ALF Group Holdings AG and

Kingsley Finance Co Limited have agreed to subscribe for \$5m in new capital in ALF PIF and the paid in capital of ALF PIF Finance Limited will be \$5,001,200. Settlement of this transaction is due by 30/4/11.

ALF PIF will, subject to normal commercial terms and requirements, expedite a listing of the company on the ASX, with the obvious associated benefits.

Given the above, I encourage you to carefully consider the details of the offer, which are set out in the ALF PIF Bidder's Statement (sent to you previously) and then completing and returning the relevant acceptance form included with this letter.

In closing, the Board of ALF PIF Finance Limited are concerned about the ever diminishing value of the Premium Income Fund.

The assets that have been sold to date are the 'easy to sell assets' and what assets are left are much harder to sell assets that, in order to maximise their value, require much work before attempting to dispose of them. There are potentially millions of dollars of claims that we have grave concerns about the current managers ability to recover.

You have been made many promises by your Manager and most are broken.

An old Australian saying is worth noting:

"Fool me once, shame on you ...Fool me twice, shame on me"

ALF PIF Finance Limited is offering PIF unitholders what could be a last chance to recover lost value from their investment.

Yours faithfully

ALF PIF Finance Limited



Michael Pakula

**Chairman**

**on behalf of the Board of Directors of ALF PIF Finance Limited**

## **LATE BREAKING NEWS**

### **2011 INTERIM ACCOUNTS:**

- **Another \$3.6M lost**
- **Expenses of over \$11M**
- **Net Assets down by \$12M**

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**ALF PIF Finance Limited (ACN 143 489 963)**

**Notice of Variation-Extension of Offer Period**

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To: Premium Income Fund (ARSN 090 697 577)  
National Stock Exchange of Australia Limited (“*NSX*”)  
Australian Securities and Investments Commission (“*ASIC*”)  
Each person to whom the Offer was made under the takeover bid referred to in this notice.

Pursuant to section 650D (1) and 630(2)(b) of the Corporations Act 2001 (Cth) (“*the Corporations Act*”), ALF PIF Finance Limited (“*ALF PIF*”) hereby gives notice that:

- (a) pursuant to section 650C (1) of the Corporations Act, it varies its takeover offer dated 8 July 2010 for all of the units in the Premium Income Fund (“*the Offer*”) as announced on 17 May 2010 and outlined in its replacement bidder’s statement dated 15 June 2010 (“*the Replacement Bidder’s Statement*”) by extending the period during which the Offer will remain open so that the Offer will now close at 7:00pm (AEDT) on 14 June 2011;
- (b) the new date for the purpose of giving notice of status of defeating conditions under section 630 of the Corporations Act will be 7 June 2011;
- (c) the Offer is varied by replacing:
  - (i) “28 February 2011” with “14 June 2011” in the table of important dates on page 2 of the Replacement Bidder’s Statement and in Annexure 1, section 3 (a) of the Replacement Bidder’s Statement (being the new closing date for the Offer unless further extended); and
  - (ii) “21 February 2011” with “7 June 2011” in Annexure 1 section 6.5 of the Replacement Bidder’s Statement (being the new date for the purpose of giving notice of the status of the defeating conditions of the Offer, unless the Offer is further extended),

and making any and all corresponding changes in the Replacement Bidder’s Statement and the Acceptance Form as and where required.

- (d) as at the date of this notice, so far as ALF PIF is aware, no defeating conditions of the Offer have been fulfilled, freed or waived.

**Withdrawal Rights**

In accordance with section 650E of the Corporations Act, as the extension of the Offer results in a total extension of the Offer Period by more than one (1) month, those PIF unitholders who have validly accepted the Offer on or before the date of this notice may withdraw their acceptance by giving notice to ALF PIF (**Withdrawal Notice**) within one (1) month beginning on the day after the date on which they receive this notice (**Withdrawal Period**).

PIF unitholders who withdraw their acceptance must return any offer consideration received for accepting the Offer. A Withdrawal Notice by a PIF unitholder withdrawing acceptance under section 650E of the Corporations Act must:

- if their securities are in a CHESS Holding:
  - be in the form of a valid originating message transmitted to ASTC by the Controlling Participant for that CHESS Holding in accordance with Rule 14.16.1 of the ASTC Settlement Rules; or
  - be in the form of a notice to ALF PIF setting out the information that ALF PIF requires to enable it to transmit a Valid Message to ASTC on behalf of the PIF Unitholder in accordance with Rule 14.16.5 of the ASTC Settlement Rules; and
- in any other case, be in writing to ALF PIF

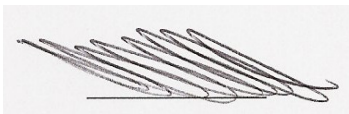
If a PIF unitholder is legally entitled to give, and does in fact give, a Withdrawal Notice within the Withdrawal Period, ALF PIF will before the end of 14 days after the day it is given the Withdrawal Notice:

- return to the PIF unitholder any documents that were sent by the PIF unitholder to ALF PIF with acceptance of the Offer; and
- if the PIF unitholder's securities are in a CHESS Holding, transmit to ASTC a Valid Message that authorises the release of the relevant securities from the Offer Accepted Subposition in which the securities have been reserved in accordance with Rule 14.16.3 or 14.16.5 of ASTC Settlement Rules (as appropriate).

A copy of this notice was lodged with ASIC on 18 February 2011. ASIC takes no responsibility for the contents of this notice.

**Date: 18 February 2011**


Signed for and on behalf of ALF PIF Finance Limited by:



Michael Pakula

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**Chairman**



Wayne Wheeler

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**Director**