



11 May 2011



Dear Premium Income Fund Unitholder

**YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU
REJECT THE INADEQUATE OFFER FROM ALF**

Between 3 May 2011 and 6 May 2011 ALF posted a letter to some members of the Premium Income Fund making misleading, ambiguous, unfounded and inflammatory statements about your Fund and your manager. ALF was asked to correct these misstatements, and has ignored this request.

The Directors of Wellington Capital Limited continue to unanimously recommend that you **REJECT** the ALF offer because:

- Bidder**
- ✗ The proposal shifts over \$120 million of the current net tangible asset value in the Premium Income Fund away from you, the Unitholders, to the Bidders current shareholders.
 - ✗ 81% of the ordinary shares in the Bidder will be owned by the bidders current shareholders not by you the Premium Income Fund Unitholders.
 - ✗ The offer does not reflect the value of your current unitholding in the Premium Income Fund.
 - ✗ The Bidder's future proposal for your Fund involves debt again.
 - ✗ ALF proposes related party litigation funding which would see the Bidder and its associates benefit from 33% of any proceeds, and you the Unitholders receiving 67% only. You have always been and should continue to have the benefit of 100% of any proceeds.

Unitholders should take no action.

The Directors of Wellington Capital Limited continue to unanimously recommend that you **REJECT** the unsolicited and highly conditional scrip bid by the Bidder as it is not in your best interests.

The offer is grossly inadequate and remains highly conditional. The proposal continues to seek to shift over \$120 million in Unitholders current value to the Bidder's current shareholders which are entities connected to Jim Byrnes and his family. The Bidder's Statement said amongst other things:

In 2006, ASIC brought proceedings against Mr Byrnes for managing a corporation whilst disqualified. ASIC found that Mr Byrnes' conduct was very similar to the management style and conduct which resulted in his 1998 banning.

In relation to the latest banning ASIC was of the view that:

'Mr Byrnes' management of the four failed companies demonstrated incompetence, a lack of commercial morality and a disregard for his statutory duties as a director'

To REJECT the ALF Offer you should simply ignore all communications from ALF.

Yours sincerely

Jenny Hutson.

Jenny Hutson
Managing Director
Wellington Capital Limited
as Responsible Entity of the Premium Income Fund

REJECT the Inadequate Offer

Premium Income Fund

Important Clarifying Information



The Directors of Wellington Capital Limited as responsible entity of the Premium Income Fund make the following clarifying statements in relation the matters raised in the correspondence from ALF in relation to its takeover offer:

Auditors – PricewaterhouseCoopers

PricewaterhouseCoopers a leading audit firm is responsible for the audit of the Fund's accounts in accordance with the *Corporations Act* and Australian Accounting Standards. The audited accounts are published in accordance with the prescribed timetable and made available to the investors.

Joint Venture Arrangements

The priority has been to ensure that the Premium Income Fund does not again directly have debt. As a consequence a number of joint venture partners have been identified to assist working through finalising the development of properties which formed security property for the loans of the Fund. Each of these parties has been introduced to Wellington Capital through an external real estate agent following a formal sales campaign. There were no pre-existing commercial relationships with any of the joint venture parties and Wellington Capital Limited.

Each of the partner based projects has been successful in achieving the agreed completion aims.

Finished Projects

As set out in the NSX Release of 30 March 2011, 77 apartments from a total of 84 available have been sold. The remaining 7 are currently listed with the appointed agents for sale.

10 of the 26 apartments at Icon Port Macquarie have been sold and settled, leaving 13 apartments available for sale through the appointed agents.

The relationship between Wellington Capital Limited and MFS Limited and its Directors

As set out in the Question and Answer Booklet of July 2008, during the period 25 March 2008 to 30 April 2008 Wellington Capital Limited provided corporate advisory services to MFS. The engagement of Wellington Capital Limited to provide corporate services to MFS during that time was initiated by the then chair the Honourable Mr Andrew Peacock.

Acquisition of the manager of the Premium Income Fund

As set out in the Question and Answer Booklet of July 2008, Wellington Capital was given the opportunity to purchase the shares in the responsible entity after the MFS Board approached six licensed entities. The decision was made by a Mr Peacock led board after consideration of the other alternatives. Those directors who had any business dealings with Wellington Capital Limited and Jenny Hutson were excluded from those meetings and discussions and were not involved in the decision to sell to Wellington Capital.

Borrower Litigation

Wellington Capital has and will continue to keep investors apprised of relevant information in relation to legal actions which the Fund is involved including those involving borrowers who refuse to repay money borrowed by them from the Fund.

The Board of Wellington Capital recommend that all Premium Income Fund unitholders REJECT the Bidder's offer. TO REJECT THE OFFER, simply IGNORE all communications from ALF

For further information please contact:

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