



Wellington

PREMIUM INCOME FUND

Annual Report

Premium Income Fund

ARSN 090 687 577

30 June 2011

Letter from the Managing Director

Dear Unitholders,

The past 12 months have seen the Fund stabilised, complex security assets finished and sold and two, one cent cash payments to Unitholders. The current net assets of the Fund as at 30 June 2011 are \$224.97 million which equates 27 cents per unit.

In a market that remains volatile, your Fund is debt free, and will remain this way. This year has seen continued havoc caused by debt instability in the United States and Europe, which has caused uncertainty worldwide. Australia has not been immune to this. No debt in your Fund means that we are in a position to act on the right sales opportunities, but are not pressured or forced to take steps that do not maximise value for you.

Wellington has conditional contracts in place to sell security assets currently held at \$46.87 million. In addition, over half of the remaining assets of the Fund by value will be taken to market this year. The net cash from sales will be returned to Unitholders as the assets are sold. We understand that the return of capital the existing capital to Unitholders is the priority.

This year has seen conditional contracts entered into in relation to some of the Fund's larger security assets including Kooralbyn International Resort and half of the units in the Trust which owns the Chifley Wollongong Hotel. A marketing campaign is due to commence shortly in relation to the Forest Resort Hotel at Creswick.

Wellington has not charged management fees to date. Once it is in a position to be able to charge management fees to your Fund, those fees will be charged for a maximum of 2 years only. This is a commitment which will align Wellington's interests with Unitholders.

The Fund has experienced a wide range of corporate activity over the last 12 months. An unsuccessful takeover offer by ALF PIF Finance Limited was declared unacceptable by the Takeovers Panel. The Federal Court declared invalid a meeting called to replace Wellington Capital as responsible entity. In addition, the Federal Court ruled that the placement of units made in May 2011 was able to proceed and that the follow on rights issue could not proceed.

My team and each of my directors are committed to acting in the best interests of Unitholders and maximising the outcome for Unitholders.

We have recently entered into a funding agreement with IMF (Australia) Limited, the Class Action litigation funder. I understand how important the Class Action is to the Unitholders who suffered loss as a result of investment decisions and loan drawdowns made by your former responsible entity.

I am of the view that is entirely appropriate and desirable that those who suffered the loss are the beneficiaries of any compensation or damages and will take all necessary steps to achieve this outcome.

My aim over the next 12 months is to position assets for sale and then take them to market. Net sales proceeds will then be paid to Unitholders.

Thank you for your support during what has been an eventful year for your Fund.

Kind regards



Jenny Hutson
Managing Director
Wellington Capital Limited
as responsible entity for
the Premium Income Fund



Fund Assets

COMMERCIAL LOAN PORTFOLIO AND INVENTORY

The Premium Income Fund is primarily a mortgage trust. This means that the Fund has as its primary assets loans to borrowers. Where a borrower is in default of its loan from the Fund, Wellington has taken steps to secure the underlying security property and become mortgagee in possession.

The following security properties are the first ranking mortgage securities underlying the commercial loan portfolio:

Property	Property description	Status	Book value as at 30 June 2011
Routley Drive, Kooralbyn, Queensland	100 room hotel, golf course, school and residential land	Conditional contract entered into. Contract subject to 18 month deferred settlement, finance and finalisation of town planning considerations by Conditions Date of 16 January 2012. Expected to net \$22 million.	\$20m
60 Harbour Street, Wollongong, New South Wales	Units in trust which owns Chifley Wollongong Hotel and five Chifley Residences held for sale	75 or 84 residential apartments have sold. Conditional contract entered into to sell half of the Fund's interest in the trust that owns the 168 room Chifley Wollongong Hotel. Sale is conditional upon the final valuation being to the satisfaction of the Fund and the purchaser's financier. Hotel valued at \$19 million. Conditional contract for sale of 50% expected to net \$10.5 million.	\$22.44m
Dry Dock Road, Tweed Heads, New South Wales	Land with development approval	Conditional contract entered into. Settlement due September 2011. Expected to net \$7 million.	\$6.25m
22 View Avenue, Surfers Paradise, Gold Coast, Queensland	104 rooms in Holiday Inn	Conditional call option over 31 apartments entered into for \$5.58m. Balance 73 apartments are for sale.	\$19.05m
1500 Midland Highway, Creswick, Victoria	Hotel and 18 hole golf course Vacant Residential land	91 of the 144 strata titled rooms in the hotel are held as security together with the 18 hole golf course, surrounding residential land and 80% of the company operating the onsite treatment facility. 13 conditional contracts for the residential land component have been entered into at \$2.28 million.	\$40.99m
48 Carlyle Street, Mackay, Queensland	Residential land with development approval	Conditional contract entered into. Settlement due October 2011. Expected to net \$2 million	\$1.42m
Tweed Road, Lithgow, New South Wales	Residential land	Settlement has occurred	\$0.25m



PREMIUM INCOME FUND

Property	Property description	Status	Book value as at 30 June 2011
3456 Main Beach Parade, Gold Coast Queensland	Waterfront land with development approval	Capital is required to undertake development directly or with a development partner. Marketing of the property for sale or joint venture continues.	\$13m
22 Mort Street, Port Macquarie, New South Wales	Residential apartments	11 apartments have been sold. 15 remaining apartments are being marketed for sale.	\$10.4m
Lot 2 Explorer Drive, Mission Beach, Queensland	Land with development approval for tourist facility	Negotiations to sell the land continue to be conducted by the borrower.	\$6.35m
23 Mars Road, Lane Cove, New South Wales	296 strata titled storage facility	Marketing of the property for sale continues	\$5m
Trinder Avenue, Maroochydore, Queensland	Residential land subdivision	Joint venture entered into to finalise the subdivision	\$3.29m
Duns Creek Road and Uffington Road, Duns Creek, New South Wales	Residential land subdivision	Funds raised in the placement during May 2011 are being applied to optimise this 20 lot subdivision	\$3.2m
507 - 523 Dalrymple Road and 9 Thorn Street, Mt Louisa, Townsville, Queensland	Land with development approval	One lot sold during 2010 for \$0.9 million. Funds raised in the placement during May 2011 are being applied to optimise this asset for sale	\$2.7m
11 Ridge Street, Nambucca Heads, New South Wales	Land with development approval for 12 apartments	This site is being marketed for sale.	\$2m
11 Church Street, Nelsons Bay, New South Wales	Land with development approval for 33 apartments	This site is being marketed for sale	\$1.5m
17 Miles Road, Helidon, Queensland	Sandstone quarry	The Fund is mortgagee in possession of the freehold property and the mining lease. Marketing of the property for sale continues	\$0.3m
TOTAL BOOK VALUE			\$158.15m

OTHER INVESTMENTS**ASSET BACKED INVESTMENTS**

Asset	Description	Book value as at 30 June 2011
Loan facility	Loan to diversified property trust	\$4.281m
Loan facility	Loan facility to Future Fuels Australia Pty Ltd	\$20m
Loan facility	Loan facility to Seiza Finance Pty Ltd	\$4m
Loan facility	Loan facility to Living and Leisure and stapled securities in Living and	\$18m



PREMIUM INCOME FUND

Asset	Description	Book value as at 30 June 2011
	Leisure	
Loan facility	Loan facility to diversified property trust	\$5.843m
TOTAL BOOK VALUE		\$52.124m

PROPERTY MANAGED INVESTMENT SCHEMES

Asset	Description	Status	Book value as at 30 June 2011
Units in trust	Property Trust	2,241,456 units held in unlisted trust	\$2.241m
Units in trust	Aspen Diversified Property Trust	3,126,378 units held in unlisted trust	\$0.204m
Units in trust	Centro Property Fund	1,498,352 units held in unlisted trust	\$1.302m
TOTAL BOOK VALUE			\$3.747m

FIXED INTEREST INVESTMENTS

Asset	Description	Status	Book value as at 30 June 2011
Securities	Nexus Bonds Fixed Securities (ASX:NXBHD)	50,000 units held in listed security	\$3.505m
Units in trust	B&B DIF Senior Debt Trust	9,447,713 units held in unlisted trust	\$0.154m
TOTAL BOOK VALUE			\$3.659m

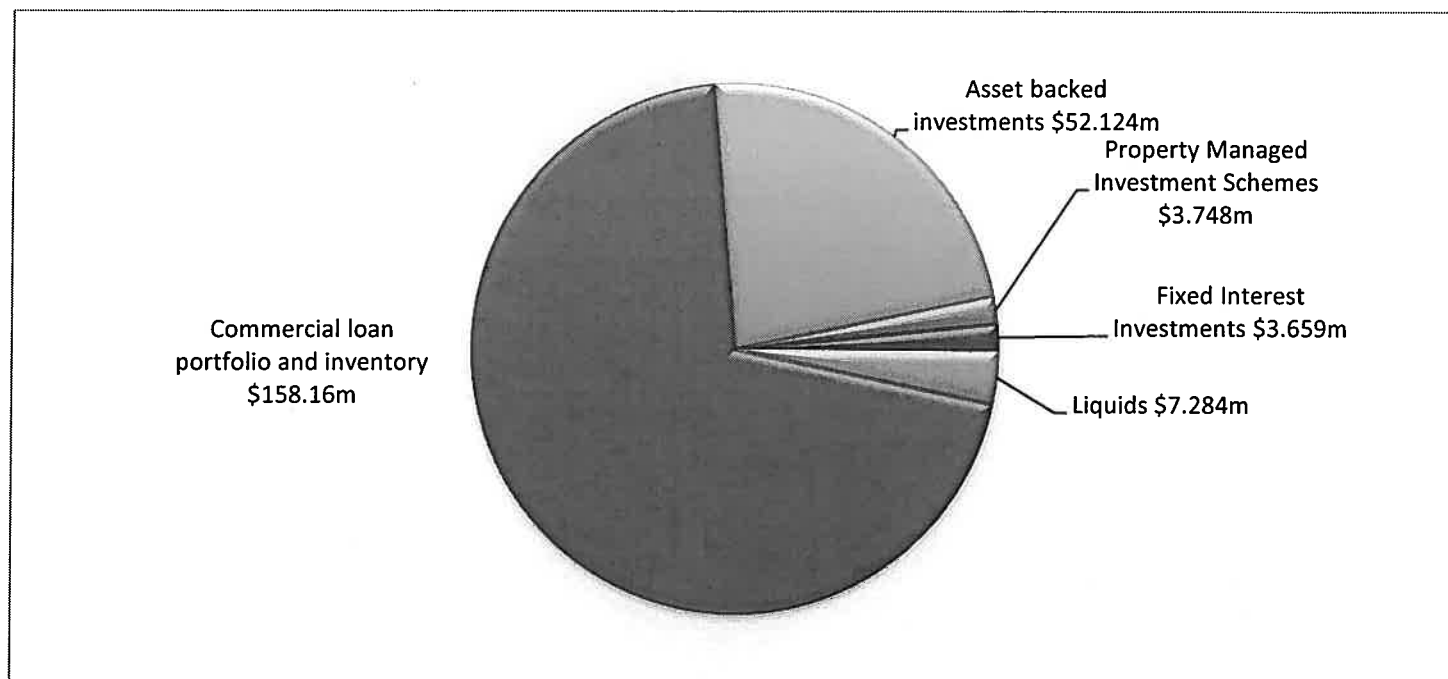
net cash

Asset	Description	Book value as at 30 June 2011
Net cash	Cash at bank	\$7.284m
TOTAL BOOK VALUE		\$7.284m

TOTAL ASSETS	\$224.97m
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Fund asset diversification as at 30 June 2011



Litigation and other recoveries

The Fund is a party to a number of legal proceedings and other recovery actions regarding the former responsible entity's investment decisions and the loan drawdown in 2007.

CLASS ACTION: MERCEDES HOLDINGS PTY LTD & ORS V KPMG & ORS – FEDERAL COURT PROCEEDINGS NSD 324/2009

Amended Statements of Claims are currently before His Honour Justice Perram of the Federal Court in New South Wales in this proceeding. This proceeding is funded by IMF (Australia) Limited. The applicants are represented by HWL Ebsworth.

Wellington Capital, IMF and the Class Action lawyers share the view that the benefit of the Class Action should be for those Unitholders who suffered the loss to which the proceedings relate, that is those Unitholders who were Unitholders in the Premium Income Fund as at 15 October 2008 whether they remain Unitholders or not.

Wellington Capital Limited as responsible entity of the Premium Income Fund will in relation to the legal proceedings in the Federal Court and any future proceedings, ask the court to make orders that any resulting damages or compensation be paid to the Unitholders at the time the loss was incurred, being 15 October 2008. If a settlement is reached, one of the terms will be that any agreed settlement sum be paid to Unitholders as at 15 October 2008.

In the event that the Federal Court does not make these orders, Wellington Capital Limited as responsible entity of the Premium Income Fund will pursue every other available legal avenue to achieve an outcome where the Unitholders who suffered the loss are the beneficiaries of any order made, including asking ASIC to modify the application of the *Corporations Act 2001*, and if necessary, Unitholders to vary the Constitution of the Premium Income Fund. Wellington Capital Limited will be assisted by IMF and the Class Action lawyers in that regard.

Investors buying units in the Premium Income Fund whether on market or off market should do so on the basis that they will not be entitled to any damages or compensation received from any legal action relating to the claim for losses suffered by Unitholders as at 15 October 2008.

Wellington Capital Limited as responsible entity of the Premium Income Fund announced on 2 June 2011 that it had executed a funding agreement with IMF (Australia) Limited (ASX:IMF), the class action funder. At this time, IMF and HWL Ebsworth have not joined Wellington Capital Limited as responsible entity of the Premium Income Fund to the action.

It has been agreed with IMF and HWL Ebsworth that it is in the best interests of Unitholders to revisit the position once Justice Perram of the Federal Court determines the position on the two proposed Statements of Claim currently before him.



Future steps following Justice Perram's decision may include Wellington Capital Limited as responsible entity of the Premium Income Fund (funded by IMF) separately commencing proceedings against KPMG.

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION V MANAGEMENT INVESTMENT PTY LTD & ORS – SUPREME COURT OF QUEENSLAND PROCEEDINGS 12122/2009

Proceedings in the Supreme Court of Queensland continue against Michael King, Craig White, Guy Hutchings, David Anderson, Marilyn Watts and the former responsible entity of the Premium Income Fund (formerly known as MFS Investment Management Limited) in relation to the draw down of the Premium Income Fund's finance facility in November 2007 and December 2007.

The proceedings seek declarations of contraventions, pecuniary penalties, compensation and disqualifications from managing corporations pursuant to the *Corporations Act 2001* (Cth).

The proceedings allege that:

- in November 2007, officers of the former responsible entity caused the Premium Income Fund to transfer \$130 million to MFS Administration Pty Ltd so that MFS Administration could use those funds to pay financial obligations of other MFS Ltd subsidiaries, including \$103 million owed to Fortress Credit Corporation (Australia) Pty Ltd by MFS Castle Pty Ltd;
- in December 2007, officers of the former responsible entity caused the Premium Income Fund to transfer \$17.5 million to MFS Pacific Finance Ltd, a New Zealand registered company (now known as OPI Pacific Finance Ltd (Receivers and Managers Appointed)); and
- that in about January 2008, officers of the former responsible entity and the fund manager created and used false documents relating to the use of the \$147.5 million.

As a result of the funds being transferred, the proceedings allege that the Premium Income Fund suffered a loss of \$147.5 million.

Jenny Hutson, Managing Director of Wellington Capital Limited as responsible entity for the Premium Income Fund has met with ASIC to ascertain how Wellington Capital Limited can assist ASIC. ASIC has wide powers, and Wellington Capital is committed to assisting to ensure that there is maximum prospect of recovery in this case for Unitholders.

OCTAVIAR ADMINISTRATION PTY LTD (IN LIQUIDATION) AND OPI PACIFIC FINANCE LIMITED (RECEIVERS AND MANAGERS APPOINTED) – SUPREME COURT OF QUEENSLAND PROCEEDING 5958/2008

This Claim was filed by Wellington Capital on 24 June 2008 in relation to the draw down of the finance facility with the Royal Bank of Scotland in November and December 2007. This proceeding remains current regardless of the proof of debt lodged and any other court proceedings which have commenced since that time.

COMMITTEE OF CREDITORS: OCTAVIAR LIMITED (IN LIQUIDATION) AND OCTAVIAR ADMINISTRATION PTY LTD (IN LIQUIDATION)

Jenny Hutson is a member of the Committee of Inspection of Creditors in relation to the liquidation of Octaviar Limited and Octaviar Administration Pty Ltd which is being undertaken by Bentleys Corporate Recovery.

The Committee of Inspection assists the Liquidator, approves fees and, in limited circumstances, approves the use of some of the Liquidator's powers, on behalf of all the creditors. The Committee of Inspection acts by a majority in number of its members present at each meeting. A Liquidator must consider any directions given by the Committee of Inspection, but is not bound to follow them.

The Liquidators have called for Proofs of Debt in relation to these companies. Wellington Capital Limited has lodged a Proof of Debt totalling \$211 million on behalf of the Premium Income Fund with the Liquidators.

PERPETUAL NOMINEES LIMITED AS CUSTODIAN FOR THE PREMIUM INCOME FUND V RYTELLE PTY LTD & ORS – VICTORIAN SUPREME COURT PROCEEDINGS

Wellington Capital Limited as responsible entity of the Premium Income Fund is mortgagee in possession of The Forest Resort located in Creswick, Victoria. A controller of the operating company has been appointed under the loan facility in the Fund's exercise of its power under its first ranking mortgage and has taken control of the underlying security property and the borrower itself.

The defaulting borrower and guarantor have sought to stop the Fund taking control of the security property by counterclaiming against the proceedings commenced in reliance of the loan facility.

It is the view of Wellington Capital Limited as responsible entity of the Premium Income Fund and its legal advisers that there has been no substantive or determinative progress in the litigation in relation to the Fund's security over The Forest Resort to enable the Fund to provide an clear update to investors. The Fund is confident of its security over the property and continues to operate the Resort in order to benefit all unitholders.





Wellington

PREMIUM INCOME FUND

Financial Report

Premium Income Fund

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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) and it holds Australian Financial Services Licence No. 291562. 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. Mr S R Pitt, CPA, FCIS, MAICD Mrs M A Greaves, LL.B, ACIS
SECRETARIES	Mrs M A Greaves and Mrs S Haylock
REGISTERED OFFICE	Level 22 307 Queen Street Brisbane Qld 4000
SHARE REGISTRY	Armstrong Registry Services 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 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 2011.

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, Age 43

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 \$2 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 67

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 Secretaries Australia. 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 46

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 Secretaries are Mrs Greaves and Mrs S Haylock.

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 Fund's 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 (continued)

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 which require further investment in order to maximise the return to the Fund. The strategy is to invest other fund assets or 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. However, by undertaking these projects, 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 thus maximising the outcome to unit holders.

The primary assets of the Fund are loans made to borrowers. Where a borrower has defaulted the fund has taken steps to secure the underlying security and become mortgagee-in-possession. The value of the underlying security property has been based on Directors valuations and assessments of the properties in comparison to similar properties. Contracts of sale provide the best evidence of a valuation and a number of properties have subsequently been sold realising a value greater than their book value. For those properties that have not been sold, formal external valuations provide the next best comparison.

An obligation exists upon the Directors to inform the market and if necessary issue restated accounts should the value of assets be significantly and materially different to the book value.

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 2011 \$000's	30 June 2010 \$000's
Net operating profit/(loss) attributable to unit holders	(31,475)	(34,449)
Cash payments to unit holders during the year	15,101	-
Cash payments - cents per unit.	2.0	-

Cash payments to unit holders during the year totalled \$15.101 million and were paid as follows:

- 1.00 cent per unit paid on 24 October 2010.
- 1.00 cent per unit paid on 14 April 2011.

The Fund had total net assets valued at \$224.9 million as at 30 June 2011 (2010 - \$265.3 million). The basis for valuation of the Fund's assets is contained in Note 2 of the financial statements.



Directors' Report (continued)

Significant change in the state of affairs

The Fund continued to be invested primarily in equity, debt instruments and mortgage loans during the year ended 30 June 2011.

The asset allocation of the Fund is as follows:

	Year Ended	
	30 June 2011	30 June 2010
Mortgage Loans	65.8%	70.1%
Managed Investment Schemes	1.8%	1.7%
Alternative Investments	25.3%	21.4%
Cash Investments	5.3%	5.4%
Fixed Interest Investments	1.8%	1.4%

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.

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

Matters subsequent to the end of financial year

The following is a summary of the matters subsequent to the end of the financial year:

- *Fund Litigation - Federal Court proceedings – QUD140/2011 – Wellington Capital Limited as responsible entity of the Premium Income Fund v Premium Income Fund Action Group Incorporated, Charles Robert Hodges and Peter Grenadier.*

This matter was heard before His Honour Justice Dowsett in the Federal Court from 6 July, 7 July, 11 July and 12 July 2011. On 13 July 2011, His Honour Justice Dowsett made orders to the effect that:

'Pursuant to section 1322(2) of the Corporations Act 2001 (Cth) the meeting of unit holders of the Premium Income Fund first convened on 16 June 2011, adjourned to 23 June 2011 and again adjourned to 14 July 2011 was invalidly convened and gave rise to a substantial injustice that cannot be remedied by the Court and that the meeting was therefore invalid.'

His Honour indicated he had made an additional finding, namely that if he had otherwise been of the view that the meeting was validly convened, the meeting was dissolved at 11.15am on 23 June 2011, due to the absence of quorum at the meeting.

- *Class Action – Federal Court Proceedings – Plan for compensation to be for the benefit of Unit holders as at 15 October 2008*

Wellington Capital Limited, IMF (Australia) Limited and the Class Action lawyers share the view that the benefit of the Class Action should be for those Unit holders who suffered the loss to which the proceedings relate, that is those unit holders who were Unit holders in the Premium Income Fund as at 15 October 2008 whether they remain unit holders or not.

Wellington Capital Limited as responsible entity of the Premium Income Fund announced on 2 June 2011 that it had executed a funding agreement with IMF (Australia) Limited (ASX:IMF), the class action funder. At this time, IMF and HWL Ebsworth have not joined Wellington Capital Limited as responsible entity of the Premium Income Fund to the action.



Directors' Report (continued)

- *Sale of security assets in commercial loan portfolio*

Apartment Sales – 2 further apartments have been sold. One at the Chifley Wollongong complex and one at the Icon Port complex.

Joint Venture – Trinder Avenue, Maroochydore. This property has been sold and settled 'as is' to a purchase who plans to undertake the existing development application. The purchaser has an obligation to provide all capital required to complete the development. Upon completion the Fund will receive \$40,000 per lot plus 50% of the net profit from sales.

Residential land – Forest Resort, Creswick. Contracts have been exchanged for the sale of 13 lots within the residential development at Forest Resort.

Holiday Inn, Gold Coast. A call option over 31 apartments has been entered into. The agreement is subject to a 90 day due diligence period.

Sale of 50% interest in the Trust that owns the Chifley Wollongong Hotel. The sale is conditional on satisfactory valuation and finance approval with settlement expected in October 2011.

- *Improvements to security assets in commercial loan portfolio*

The Novotel Forest Resort Creswick will have the rights to host the Victorian PGA Championships for the next five years from 2012 to 2016.

Further details of subsequent events can be found in Note 21.

Other than the matters summarised above, no matter or circumstance has arisen since 30 June 2011 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 as at 30 June 2011 other than set out in Note 18.

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 18 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 18 of the Financial Statements.



Directors' Report (continued)

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. Since that date, distributions amounting to two cents per unit have been made and accordingly during the financial year no management fees were charged to the Fund by the Manager. The Manager has since resolved to receive management fees for a 2 year period only from the date of the first payment of a management fee.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in the Consolidated Statement of Changes in Equity 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.

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. 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 9.

This report is made in accordance with a resolution of the Directors.



Robert Pitt

Director

Brisbane

30 September 2011



Mary-Anne Greaves

Director





Auditor's Independence Declaration

As lead auditor for the audit of Premium Income Fund, for the financial year ended 30 June 2011, 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 to Premium Income Fund during the period.

A handwritten signature in black ink, appearing to read 'Timothy J Allman', enclosed within a large, loopy oval shape.

Timothy J Allman

Partner

PricewaterhouseCoopers

Brisbane
30 September 2011

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Consolidated Statement of Comprehensive Income

		Year Ended	
	Note	30 June 2011 \$000's	30 June 2010 \$000's
REVENUE FROM CONTINUING OPERATIONS			
Development and construction revenue	3	14,096	27,647
Interest income	4	3,925	2,853
Revenue from continuing operations		18,021	30,500
INVESTMENT INCOME			
Net gain/(loss) on financial instruments designated as at fair value through profit or loss		87	(8,591)
Net loss on mortgage loans	14	(22,321)	(27,336)
Net loss on other financial assets		(5,258)	(8,801)
Investment income	5	64	63
Other operating income	6	823	611
Total revenues and investment loss		(8,584)	(13,554)
EXPENSES			
Cost of development construction and property sales	7	16,574	15,962
Impairment of inventory		4,500	-
Responsible entity's fees	18	-	-
Custodian and registry fees		535	598
Fees and commission expense		62	69
Auditor's remuneration	8	207	98
Finance costs		-	900
Professional and consulting fees		522	2,740
Insurance		100	133
Administration expenses		391	395
Total operating expenses		22,891	20,895
Operating profit/(loss)		(31,475)	(34,449)



Consolidated Statement of Comprehensive Income (continued)

	Note	Year Ended	
		30 June 2011 \$000's	30 June 2010 \$000's
Other Comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(31,475)	(34,449)
Profit attributable to:			
Unit holders		(30,819)	(35,532)
Non-controlling interest		(656)	1,083
		(31,475)	(34,449)
EARNINGS PER UNIT ATTRIBUTABLE TO UNIT HOLDERS			
Basic earnings/(loss) per unit	24	(0.04)	(0.05)
Diluted earnings/(loss) per unit	24	(0.04)	(0.05)

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



Consolidated Balance Sheet

		Year Ended	
	Note	30 June 2011 \$000's	30 June 2010 \$000's
ASSETS			
Cash and cash equivalents	19	10,856	12,358
Other financial assets	10	52,124	57,375
Receivables	11	4,931	5,321
Financial assets held at fair value through profit or loss	12	7,407	8,278
Inventory	13	22,441	38,642
Mortgage loans	14	135,722	149,006
TOTAL ASSETS		233,481	270,980
LIABILITIES			
Payables	15	8,503	5,678
TOTAL LIABILITIES		8,503	5,678
NET ASSETS		224,978	265,302
EQUITY			
Contributed equity		326,789	334,340
Non-controlling interest	16	2,529	4,483
Retained losses		(104,340)	(73,521)
TOTAL EQUITY		224,978	265,302

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. There are no externally imposed capital requirements.



Consolidated Statement of Changes in Equity

2011	Note	Contributed Equity	Retained Losses	Non- controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
BALANCE AT BEGINNING OF THE YEAR		334,340	(73,521)	4,483	265,302
Placement		7,550	-	-	7,550
Units issued		-	-	-	-
Net profit/(loss) for the period		-	(30,819)	(656)	(31,475)
Cash payments to unit holders		(15,101)	-	-	(15,101)
Distributions paid to non-controlling interest to date		-	-	(1,298)	(1,298)
BALANCE AT THE END OF THE YEAR		326,789	(104,340)	2,529	224,978

2010	Note	Contributed Equity	Retained Losses	Non- controlling entity	Total
		\$000's	\$000's	\$000's	\$000's
BALANCE AT BEGINNING OF THE YEAR		334,340	(37,989)	-	296,351
Placement		-	-	-	-
Units issued		-	-	3,800	3,800
Net profit/(loss) for the period		-	(35,532)	1,083	(34,449)
Cash payments to unitholders		-	-	-	-
Distributions paid to non-controlling interest to date		-	-	(400)	(400)
BALANCE AT THE END OF THE YEAR		334,340	(73,521)	4,483	265,302

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.



Consolidated Statement of Cash Flow

		Year Ended	
	Note	30 June 2011 \$000's	30 June 2010 \$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and investment income received		4,812	3,527
Gross proceeds from property sales		14,486	29,826
Payments to suppliers in relation to properties sold		(13,749)	(16,989)
Payments to suppliers		(1,817)	(4,840)
Net cash inflow/(outflow) from operating activities	19	3,732	11,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Mortgage loan advances		(1,389)	(9,520)
Mortgage loan repayments		5,004	10,309
Net cash inflow/(outflow) from investing activities		3,615	789
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of units		7,550	-
Cash payments to unit holders		(15,101)	-
Distributions paid to non-controlling interest		(1,298)	(400)
Net cash inflow/(outflow) from financing activities		(8,849)	(400)
Net increase/(decrease) in cash and cash equivalents		(1,502)	11,913
Cash and cash equivalents at beginning of year		12,358	445
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19	10,856	12,358

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.



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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 30 September 2011. 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 purpose 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 complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Fund comprising 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 over which the Fund has the power to control the financial and operating policies so as to obtain benefits from its activities.

(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.



Notes to the Financial Statements (Continued)

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.

(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.



Notes to the Financial Statements (Continued)

(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 primary assets of the Fund are loans made to borrowers. Where a borrower has defaulted the Fund has taken steps to secure the underlying security and become mortgagee-in-possession. The value of the underlying security property has been based on Directors valuations and assessments of the properties in comparison to similar properties. Contracts of sale provide the best evidence of a valuation and a number of properties have subsequently been sold at a value greater than their book value. For those properties that have not been sold, formal external valuations provide the next best comparison.

An obligation exists upon the Directors to inform the market and if necessary issue restated accounts should the value of assets be significantly and materially different to the book value.

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 reporting 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 by the Premium Income Fund are based on the availability of surplus cash and approved by the Directors after careful consideration to the Fund's future cash needs to meet its current commitments.

The subsidiary of the Premium Income Fund paid a distribution to the non-controlling interest entity (detailed in Note 16).

(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.

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 in the Statement of Comprehensive Income 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 expense are recognised in profit and loss on an accruals basis. Construction expenses include directly attributable expenses for 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 residential properties 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.

(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 and financial liabilities. 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. The Fund has not yet decided when to adopt AASB 9.

(ii) *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 will need to disclose any transactions between its subsidiaries and its associates.

(iii) *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013).*

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Premium Income Fund has public accountability as defined in AASB 1053 as it is listed on the National Stock Exchange (NSX) and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the Fund.

(iv) *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and revised IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.*

In May 2011, the IASB issued a suite of five new and amended standards which addresses the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly. The Fund does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.



Notes to the Financial Statements (Continued)

(v) IFRS 13 Fair Value Measurement (effective 1 January 2013)

IFRS 13 was released in May 2011. The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Fund has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements.

(vi) AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2010).

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as the result of applying the revised rules.

NOTE 3. DEVELOPMENT AND CONSTRUCTION REVENUE

	Year Ended	
	30 June 2011	30 June 2010
	\$000's	\$000's
Property sales	14,096	27,647

The Controlled Entity completed the development and construction of the Harbour Street Wollongong project in the 2010 financial year. The balancing 22 unsold residential units as at 30 June 2010 have been sold in the current financial year. Of the eight apartments on top of the hotel, only five remain unsold.

NOTE 4. INTEREST INCOME

	YEAR ENDED	
	30 June 2011	30 June 2010
	\$000's	\$000's
Cash and cash equivalents	265	93
Financial assets held at fair value	-	819
Mortgage loans	1,683	1,700
Other financial assets	1,977	241
	3,925	2,853

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

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



Notes to the Financial Statements (Continued)

NOTE 5. INVESTMENT INCOME

Equity securities

Year Ended	
30 June 2011	30 June 2010
\$000's	\$000's
64	63

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

The contractual returns for investments in managed investment schemes range from 6.08% to 17.48%. (2010: 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. A number of the assets are non-performing and as such the Fund is not deriving substantial income.

NOTE 6. OTHER OPERATING INCOME

Rent income

Sundry income

Year Ended	
30 June 2011	30 June 2010
\$000's	\$000's
819	128
4	483
823	611

NOTE 7. COST OF DEVELOPMENT, CONSTRUCTION AND PROPERTY SALES

Marketing and selling costs

Development and project management costs

Government charges and fees

Year Ended	
30 June 2011	30 June 2010
\$000's	\$000's
511	1,599
15,291	11,289
772	3,074
16,574	15,962



Notes to the Financial Statements (Continued)

NOTE 8. AUDITORS' REMUNERATION

	Year Ended	
	30 June 2011 \$	30 June 2010 \$
<i>Audit services:</i>		
Audit & review services	142,840	73,000
Compliance plan audit services	15,800	3,475
<i>Non-audit services:</i>		
Other services provided by PricewaterhouseCoopers Australia	-	-
Tax services	48,685	21,865
Total remuneration	207,325	98,340

PricewaterhouseCoopers Australia perform the Fund audit and review.

Crowe Horwath perform the Compliance Audit.

KPMG provide tax services.

NOTE 9. PAYMENTS TO UNIT HOLDERS

The Fund made two payments to unit holders during the year, each cash payment being for one cent per unit. The cash payments were attributable to the net proceeds arising from the sales of the Harbour Street Wollongong project.

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Payments paid to unit holders	15,101	-

NOTE 10. OTHER FINANCIAL ASSETS

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Asset backed investments	206,736	206,729
Provision for impairment	(154,612)	(149,354)
Written down value of asset backed investments	52,124	57,375



Notes to the Financial Statements (Continued)

Reconciliation of Provision for Impairment – Other Financial Assets

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Balance at the beginning of the financial year	149,354	149,771
Impairment recognised during the year	5,483	8,801
Impairment provision reversed during the year	(225)	(9,218)
Balance at the end of the financial year	154,612	149,354

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

- Secured and unsecured debt facilities; and
- Direct equity investments.

NOTE 11. RECEIVABLES

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Other debtors	4,919	4,630
GST receivable	12	691
	4,931	5,321

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

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Equity securities	3,748	4,598
Fixed interest securities	3,659	3,680
	7,407	8,278



Notes to the Financial Statements (Continued)

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.

Finished goods valued at cost

Year Ended	
30 June 2011	30 June 2010
\$000's	\$000's
22,441	38,642

NOTE 14. MORTGAGE LOANS

Mortgage loans

Provision for impairment

Written down value of mortgage loans

Year Ended	
30 June 2011	30 June 2010
\$000's	\$000's
208,277	204,442
(72,555)	(55,436)
135,722	149,006

Mortgage loans are secured by registered mortgages. The recoverability of mortgage loans has previously been unfavourably affected by the tightening in global credit markets and a now general decline in property valuations across Australia. As loans 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
- 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).

Of the Mortgage Loans outstanding, \$135.722m (2010:\$149.006m) was considered to be non-performing. The Fund is mortgagee-in-possession of \$129.367m (2010:\$142.651m) as at year end.



Notes to the Financial Statements (Continued)

Reconciliation of Provision for Impairment – Mortgage Loans

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Balance at the beginning of the financial year	55,436	63,538
Provision for impairment recognised during the year	22,321	27,336
Assets realised during the year	(594)	(35,438)
Balance at the end of the financial year	77,163	55,436

NOTE 15. PAYABLES

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Trade payables	7,118	1,385
Accrued expenses	1,215	1,187
GST payable	170	3,106
	8,503	5,678

NOTE 16. NON-CONTROLLING INTEREST

	Consolidated Year Ended		Parent Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's	30 June 2011 \$000's	30 June 2010 \$000's
Opening balance	4,483	-	-	-
Contributed Equity	-	3,800	-	-
Net profit/(loss) for the period	(656)	1,083	-	-
Distributions paid	(1,298)	(400)	-	-
Non-controlling interest	2,529	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 by the joint venture partner in order to complete the project.

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

Name of entity	Country of Incorporation	Class of unit	Unitholding	
			30 June 2011	30 June 2010
Harbour Street Development Trust	Australia	"A"	90%	90%



Notes to the Financial Statements (Continued)

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 2011 \$000's	30 June 2010 \$000's
Balance Sheet		
Total assets	230,796	254,506
Total liabilities	8,347	1,687
Net Assets	222,449	252,819
Equity		
Contributed equity	334,340	334,340
Placement	7,550	-
Distributions paid	(15,101)	-
Retained losses	(105,340)	(81,521)
	222,449	252,819
Total Comprehensive Income/(Loss) for the year	(30,819)	(43,532)

NOTE 17. 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, \$131.4 million (2010: \$170.0 million) of the mortgage loans are impaired and non-performing, whilst \$4.4 million (2010: \$33.3 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.

Maximum exposure to credit risk:

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Mortgage loans renegotiated	-	-
Non-performing mortgage loans with no impairment	4,412	33,388
Non-performing mortgage loans with impairment	131,360	170,454
Total maximum exposure to credit risk	135,722	203,842
Collateral held	135,722	149,006
Collateral held as Mortgagee in Possession	129,400	131,401

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 2011 \$000's	30 June 2010 \$000's
Past due 1-3 months	-	-
Past due 4-6 months	-	-
Past due greater than 6 months	4,412	33,388
	4,412	33,388

Non-performing mortgage loans with impairment

Past due 1-3 months	-	-
Past due 4-6 months	-	-
<i>Past due greater than 6 months</i>	131,360	170,454
	131,360	170,454

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 \$52m (2010 \$57m). These are secured with the exception of \$24m of unsecured investments. As such, the credit risk to the Fund is represented by the written down value of \$52m.



Notes to the Financial Statements (Continued)

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 +/- 250 basis points from the year end rates, net profit would have varied by +/- \$0.96m respectively.

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.

2011	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	3.25	10,856	-	-	10,856
Asset backed investments	10.8	18,000	-	34,124	52,124
Trade & other receivables	-	-	-	4,931	4,931
Equity securities	1.53	3,748	-	-	3,748
Fixed interest securities	10.3	-	3,659	-	3,659
Mortgage loans	Note 1	-	135,722	-	135,722
Total Assets	-	32,604	139,381	39,055	211,040
Financial Liabilities					
Trade & other payables	-	-	-	8,503	8,503
Total Liabilities	-	-	-	8,503	8,503

Note 1 - 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)).

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	3.0	12,358	-	-	12,358
Asset backed investments	0.9	-	39,078	18,297	57,375
Trade & other receivables	-	-	-	5,321	5,321
Equity securities	1.5	-	4,598	-	4,598
Fixed interest securities	10.3	-	3,680	-	3,680
Mortgage loans	Note 1	-	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



Notes to the Financial Statements (Continued)

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 equity and fixed interest securities that rely on market quoted prices to determine their book value. These investments have already been heavily impaired to their market value and any future downward price movements will have only a minor impact on the Fund.

The Fund has no exposure to foreign currency risk.

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.

2011	Less than 1 month \$000's	1-6 months \$000's	6-12 months \$000's	1-2 years \$000's
Trade & other payables	(915)	(2,980)	(4,608)	-

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)	-	-	-

Fair value hierarchy

The Fund classifies 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.



Notes to the Financial Statements (Continued)

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 2011.

2011	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	-	3,748	-	3,748
- Fixed interest securities	3,659	-	-	3,659
Total	3,659	3,748	-	7,407

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

Mortgage loans and Asset backed investments are at amortised cost less impairment which materially represents the fair value of the receivables.

NOTE 18. RELATED PARTY TRANSACTIONS

Responsible entity

The responsible entity of the Premium income Fund is Wellington Capital Limited which was appointed on 15 October 2008.

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.



Notes to the Financial Statements (Continued)

Responsible Entity's Fees and Other Transactions

Management fees paid to the responsible entity.

- Wellington Capital Limited

Year Ended	
30 June 2011	30 June 2010
\$	\$

Related party Transactions

Armstrong Registry Services Limited, a company related to the responsible entity, provides registry services to the Fund.

Registry fees paid to Armstrong Registry Services Limited

Registry fees paid to Computershare*

Year Ended	
30 June 2011	30 June 2010
\$	\$
455,400	83,490
-	450,592
455,400	534,082

*Computershare provided registry services for ten months.

As at 30 June 2011, \$37,950 (2010: \$nil) was owing to Armstrong Registry Services Limited.

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 2011

	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	41,114,196	38,021,281	4.5	-	3,092,915	767,310

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	-



Notes to the Financial Statements (Continued)

Units in the 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 being 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 19. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Year Ended	
	30 June 2011 \$000's	30 June 2010 \$000's
Net profit/(loss)	(31,475)	(34,449)
Net unrealised (gain)/loss on financial instruments designated as fair value through profit or loss	16,568	21,804
Impairment of inventory	4,500	-
Net (gain)/loss on mortgage loans	10,924	22,247
Decrease/(increase) in receivables	390	(1,072)
(Decrease)/increase in payables	2,825	2,994
Net cash inflow/(outflow) from operating activities	3,732	11,524

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:

	30 June 2011 \$000's	30 June 2010 \$000's
Cash and cash equivalents	10,856	12,358



Notes to the Financial Statements (Continued)

NOTE 20. 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. The Non-Controlling interest is a special purpose entity used for completion and sale of the Harbour Street Wollongong project. 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 21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Fund Litigation

Federal Court Proceedings – QUD140/2011 – Wellington Capital Limited as responsible entity of the Premium Income Fund v Premium Income Fund Action Group Incorporated, Charles Robert Hodges and Peter Grenadier

On 28 June 2011, Wellington Capital Limited as responsible entity of the Premium Income Fund filed an Amended Application, Statement of Claim and affidavits in support in the Federal Court in Brisbane.

The application was made under section 1324 of the Corporations Act for orders concerning the validity of the Notice of Meeting sent by the Premium Income Fund Action Group Incorporated, Peter Grenadier and Charles Hodges dated 16 May 2011.

The orders being sought were:

- a declaration that the notice of meeting of members of the Premium Income Fund dated 16 May 2011 issued by the first, second and third defendants, is invalid.
- a declaration that the defendants contravened s 252G of the Corporations Act;
- a declaration that the second and third defendants contravened s 671B of the Corporations Act;
- a declaration that the meeting of members of the Premium Income Fund purportedly held on 23 June 2011 was:
 - inquorate;
 - dissolved pursuant to clause 10.6 of the Constitution of the Premium Income Fund;
 - a declaration that any resolution purported to be passed at the meeting of members in the Premium Income Fund purportedly held on 23 June 2011, including the resolution purporting to adjourn the meeting to 14 July 2011, is invalid;
- an order restraining the defendants by themselves, their servants or agents or howsoever otherwise, from proceeding with the meeting of unit holders of the Premium Income Fund as described in the notice of meeting of the Premium Income Fund dated 16 May 2011.



Notes to the Financial Statements (Continued)

The matter was heard before His Honour Justice Dowsett of the Federal Court from 6 July, 7 July, 11 July and 12 July 2011. On 13 July 2011, His Honour Justice Dowsett of the Federal Court made orders to the effect that:

'Pursuant to section 1322(2) of the Corporations Act 2001 (Cth) the meeting of unit holders of the Premium Income Fund first convened on 16 June 2011, adjourned to 23 June 2011 and again adjourned to 14 July 2011 was invalidly convened and gave rise to a substantial injustice that cannot be remedied by the Court and that the meeting was therefore invalid.'

His Honour indicated he had made an additional finding, namely that if he had otherwise been of the view that the meeting was validly convened, the meeting was dissolved at 11.15am on 23 June 2011, due to the absence of quorum at the meeting.

Wellington Capital invited His Honour to make the order referred to above, so that Unit holders would be informed, but otherwise could refrain from making further formal orders until his reasons were finalised.

His Honour adopted that course.

Class Action - Federal Court Proceedings

Plan for compensation to be for the benefit of Unit holders as at 15 October 2008

Wellington Capital Limited, IMF (Australia) Limited and the Class Action lawyers share the view that the benefit of the Class Action should be for those Unit holders who suffered the loss to which the proceedings relate, that is those Unit holders who were Unit holders in the Premium Income Fund as at 15 October 2008 whether they remain Unit holders or not.

Wellington Capital Limited as responsible entity of the Premium Income Fund will in relation to the legal proceedings in the Federal Court and any future proceedings, ask the court to make orders that any resulting damages or compensation be paid to the Unit holders at the time the loss was incurred, being 15 October 2008. If a settlement is reached, one of the terms will be that any agreed settlement sum be paid to Unit holders as at 15 October 2008.

In the event that the Federal Court does not make these orders, Wellington Capital Limited as responsible entity of the Premium Income Fund will pursue every other available legal avenue to achieve an outcome where the Unit holders who suffered the loss are the beneficiaries of any order made, including asking ASIC to modify the application of the *Corporations Act 2001*, and if necessary, Unit holders to vary the Constitution of the Premium Income Fund. Wellington Capital Limited will be assisted by IMF and the Class Action lawyers in that regard.

Investors buying units in the Premium Income Fund whether on market or off market should do so on the basis that they will not be entitled to any damages or compensation received from any legal action relating to the claim for losses suffered by Unit holders as at 15 October 2008.

Wellington Capital Limited as responsible entity of Premium Income Fund as applicant in class action

Wellington Capital Limited as responsible entity of the Premium Income Fund announced on 2 June 2011 that it had executed a funding agreement with IMF (Australia) Limited (ASX:IMF), the class action funder. At this time, IMF and HWL Ebsworth have not joined Wellington Capital Limited as responsible entity of the Premium Income Fund to the action.

It has been agreed with IMF and HWL Ebsworth that it is in the best interests of Unit holders to revisit the position once Justice Perram of the Federal Court determines the position on the two proposed Statements of Claim currently before him.

Future steps following Justice Perram's decision may include Wellington Capital Limited as responsible entity of the Premium Income Fund (funded by IMF) separately commencing proceedings against KPMG.

Sale of security assets in commercial loan portfolio

Apartment sales

On 11 July 2011 Wellington Capital Limited as responsible entity of the Premium Income Fund is advised that a further two apartments have been sold from its commercial loan portfolio.

Settlement has occurred in relation to one penthouse level serviced apartment in the Chifley Wollongong complex. Gross proceeds are \$944,000. Five Chifley residences remain to be sold.

Settlement has occurred in relation to one apartment in the Icon Port complex. Gross proceeds are \$550,000. 15 apartments remain to be sold.



Notes to the Financial Statements (Continued)

Joint venture – Trinder Avenue, Maroochydore

On 11 July 2011, Wellington Capital Limited as responsible entity of the Premium Income Fund advised that a contract had been signed and settled in relation to the properties at 4, 12, 22, 23, 24 and 30 Trinder Avenue, Maroochydore.

The property, located at Maroochydore on the Sunshine Coast in Queensland, is a residential development site, part of which has previously been sold with the net proceeds used to reduce debt to the Fund.

The property has been sold 'as is', to a purchaser who plans to undertake the development, in accordance with the existing development application. The arrangement saw the purchaser pay \$100,000 on completion and have the obligation to source and provide all capital required to undertake the development of the land into 30 residential lots.

The capital required to undertake the development will then be repaid from the sales proceeds. The developer will then be paid \$40,000 per lot and the Fund will then be paid \$40,000 per lot. The balance net proceeds will be apportioned 50% to the Fund and 50% to the developer.

This arrangement will ensure that the Fund enjoys some of the economic benefits of the land being developed and sold whilst having the developer procure and be responsible for funding, delivery and sale.

Residential land, Forest Resort, Creswick

On 11 July 2011 Wellington Capital Limited as responsible entity of the Premium Income Fund announced that 13 contracts had been exchanged in relation to the residential land component of the Forest Resort located at Creswick, Victoria.

Wellington Capital Limited as responsible entity of the Premium Income Fund is selling the 13 lots within the residential development at Forest Resort as mortgagee in possession.

The residential development comprises 11 stages and forms part of the underlying security property located at Forest Resort, Creswick.

The purchase prices under the contracts total \$2.28 million plus GST.

Holiday Inn, Surfers Paradise, Queensland

On 11 July 2011 Wellington Capital Limited as responsible entity of the Premium Income Fund announced that it has entered into a call option over 31 apartments located at the Holiday Inn, Surfers Paradise, Queensland which forms part of the Holiday Inn letting pool.

Wellington Capital Limited as responsible entity of the Premium Income Fund is selling the 31 units located at the Holiday Inn, Surfers Paradise, Queensland as mortgagee in possession.

The purchase prices totals \$5.68 million (plus GST if applicable). The agreement is subject to a 90 day due diligence period.

Sale of 50% interest in Trust that owns the Chifley Wollongong Hotel

On 5 August 2011, Wellington Capital Limited as responsible entity of the Premium Income Fund announced that it had completed negotiations in relation to the sale of half of its interest in the trust that owns the 168 room Chifley Wollongong Hotel. The sale is conditional upon the final valuation being to the satisfaction of the vendor and finance approval.

Settlement is scheduled to occur in October 2011. The net proceeds payable to the Premium Income Fund on sale will be a minimum of \$10.5 million.

Improvements to security assets in commercial loan portfolio

On 13 July 2011 Wellington Capital Limited as responsible entity of the Premium Income Fund announced that a contract has been signed to host the Victorian PGA Championship at the Novotel Forest Resort Creswick located at Creswick, Victoria.

Wellington Capital Limited as responsible entity of the Premium Income Fund is mortgagee in possession of the underlying security property at Forest Resort located at Creswick, Victoria which comprises of a hotel, golf course, residential development, water treatment plant and two level villas.

The Novotel Forest Resort Creswick is a four and a half star, 144 room eco-friendly hotel which opened on 26 March 2008. The hotel comprises various facilities in addition to the golf course including gym, day spa, restaurants, conference facilities and tennis courts. The hotel is situated amongst 150 acres of bushland and is a short distance from Bendigo and Ballarat.



Notes to the Financial Statements (Continued)

The Novotel Forest Resort Creswick will have the rights to host the Victorian PGA Championship at the Novotel Forest Resort Creswick for the next five years from 2012 to 2016.

NOTE 22. OCTAVIAR LIMITED SUPPORT FACILITY

On 26 February 2008 the Fund exercised its rights under the Support Mechanism with Octaviar Limited 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 23. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

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

NOTE 24. EARNINGS PER UNIT

	Year Ended	
	30 June 2011 1000's	30 June 2010 1000's
Net profit/(loss) used in calculating basic and diluted earnings per unit (\$)	(31,475)	(34,449)
The weighted average number of units on issue	764,470	755,032
The number of units used in calculating diluted earnings per unit	830,533	755,032
Earnings per unit attributable to unit holders		
Basic earnings /(loss) per unit	(0.04)	(0.05)
Diluted earnings /(loss) per unit	(0.04)	(0.05)

The Fund was listed in the 2009 financial year.



Directors' Declaration

In the opinion of the Directors of Wellington Capital Limited, the Responsible Entity of the Premium Income Fund (the Consolidated Fund'), we state that:

- (a) the financial statements and notes set out on pages 9 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as issued by the International Accounting Standards Board 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 2011 and of its performance for the year ended on that date.
- (b) there are reasonable grounds to believe that the Consolidated Fund will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements are in accordance with the Funds Constitution.

The Directors have been given the declarations by the Managing Director 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.



Robert Pitt
Director



Mary-Anne Greaves
Director

Brisbane
30 September 2011





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

Report on the financial report

We were engaged to audit the accompanying financial report of Premium Income Fund (the trust), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, 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 Premium Income Group (the consolidated entity). The consolidated entity comprises Premium Income 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 Wellington Capital Limited, as responsible entity for the trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The recoverable amount of mortgage loans amounting to \$135,722,000 representing 60% of the Trust's net assets have been valued by the directors assisted by their external advisors on the basis described in note 2(d) and note 14. At the date of issue of this report we were unable to obtain access to the external advisors and their supporting work papers and as a result were unable to evaluate the appropriateness of the advisors work and obtain sufficient appropriate audit evidence in relation to the recoverable amount of the mortgage loans. In addition, included within other financial assets are asset backed loans amounting to \$24m. We were unable to obtain sufficient appropriate audit evidence about the carrying value of these asset backed loans as management were unable to provide us with sufficient appropriate audit evidence in respect of the valuation of the underlying security. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of the recoverable amount of the mortgage loans or the valuation of the asset-backed loans.

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Disclaimer of opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide the basis for an audit opinion. Accordingly we do not express an opinion on the financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read "Timothy J Allman", written over a large, stylized, horizontal oval shape.

Timothy J Allman
Partner

Brisbane
30 September 2011

Supplementary information required by the Stock Exchange Listing Rules

Top 10 Unit Holders as at 26 September 2011

Name	Number of units held	% of Total
1. Yuan Essentials Pty Ltd	88,516,054	10.66
2. Wellington Capital Limited <Wholesale Premium Income Fund A/C>	37,607,494	4.53
3. IOOF Investment Management Ltd <IOOF Portfolio Service A/C>	15,800,591	1.90
4. Equity Trustees Limited <Accumulation Account>	4,000,000	0.48
5. Equity Trustees Limited <Allocated Pension Account>	4,000,000	0.48
6. Mercedes Holdings Pty Ltd	3,631,444	0.44
7. Max Investments (Aust) Pty Ltd	2,591,872	0.31
8. Gross S & T Pty Ltd <S & T Gross Superannuation Fund A/C>	2,500,000	0.30
9. Mansted Enterprises Pty Ltd <Mansted Enterprises S/F A/C>	2,180,000	0.26
10. Labaton Pty Ltd	2,078,488	0.25

Comparative results, assets and liabilities for the last five years

	2011	2010	2009	2008	2007
	\$000's	\$000's	\$000's	\$000's	\$000's
Net operating profit/(loss)	(31,475)	(34,449)	(39,356)	(379,283)	66,907
Assets	233,481	270,980	298,344	395,723	886,664
Liabilities (excluding net assets attributable to unit holders)	8,503	5,678	1,993	59,941	6,573

