

Premium Income Fund

Investor Update: 31 December 2010



Issue 3, 2010

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

The Chifley Wollongong, which opened on 1 September 2010, is trading as expected.

A cash payment of \$7.55 million, representing 1 cent per unit, was made to all Unitholders on 29 October 2010.

It remains a challenging time. My team continues to focus on finding ways to maximise the value of the underlying assets of the Fund and to realising assets and the underlying security property at appropriate values.

Kind regards

Jenny Hutson
Managing Director
Wellington Capital Limited

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

Key events:

- ✿ \$7.55 million cash payment made to Unitholders on 29 October 2010. No further cash payments have been scheduled at this time.
- ✿ Marketing of the Wollongong development continues. 69 apartments have been sold and settled. 15 apartments remain on the market.
- ✿ Off market takeover bid made for units in the Premium Income Fund extended to 28 February 2011. The Directors continue to recommend that this offer is REJECTED by Unitholders.

Interim Financial Report

The Annual Financial Report for the period ended 31 December 2010 will be released to the market by 15 March 2011.

This audited report will set out the financial position of the Premium Income Fund as at 31 December 2010. The Report will be available online, and a hard copy will be made available to Unitholders on request.

Cash Payment

A 1 cent per unit cash payment was made to Unitholders on 29 October 2010. No further cash payments have been scheduled at this time.

Our continuing focus is on the rebuilding of unit value. This will be achieved through a combination of further development

of selected existing security assets, selected realisations and with measured new investments aimed at rebalancing the asset class allocations of the Fund in time.

REJECT TAKEOVER OFFER

A takeover offer seeking to purchase all of the units in the Premium Income Fund was received on 17 May 2010. This offer was extended by the Bidder on 22 October 2010 and now has a closing date of 28 February 2011.

Unitholders should take no action.

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

As at 14 September 2010, the Bidder had obtained acceptances in relation to 2,097,721 units in the Premium Income Fund, or 0.28% of the total units on issue.

Updates in relation to the acceptances received by the Bidder are lodged with the NSX and available at www.nsx.com.au. No update has been received from the Bidder since 22 October 2010.

Commercial Loan Portfolio

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

As mortgagee in possession, the Fund must take a number of steps to control the property. Where the underlying security property is an operational business, such as the Forest Resort Hotel at Creswick, the Fund is continuing to operate the business in order to ensure that the value of the underlying security property is not diminished.

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

Chifley Wollongong

The hotel component of the Wollongong project, now known as Chifley Wollongong opened on 1 September 2010.

69 apartments in the adjacent building have been sold. 15 apartments remain to be sold, as does the 168 room hotel.

Litigation Update

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





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

ASIC v King & Ors – Supreme Court Proceedings

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

These proceedings primarily relate to the events surrounding the drawdown on the finance facility of the Premium Income Fund during 2007. ASIC has appointed Corrs Chambers Westgarth to act on their behalf in these proceedings. Each of the Respondents is required to file a Defence by 24 March 2011.

Bond Street Custodians – Federal Court Proceedings

A commercial settlement has been reached in the proceedings commenced by Bond Street Custodians Limited.

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

On 1 October 2010, Bond Street Custodians Limited filed an amended Statement of Claim in these proceedings reducing the compensation sought to approximately \$465,000 plus interest. This matter was set for trial in the week commencing 13 December 2010.

A settlement has been reached whereby Bond Street Custodians is paid the sum of \$150,000 without any admission of liability of either party.

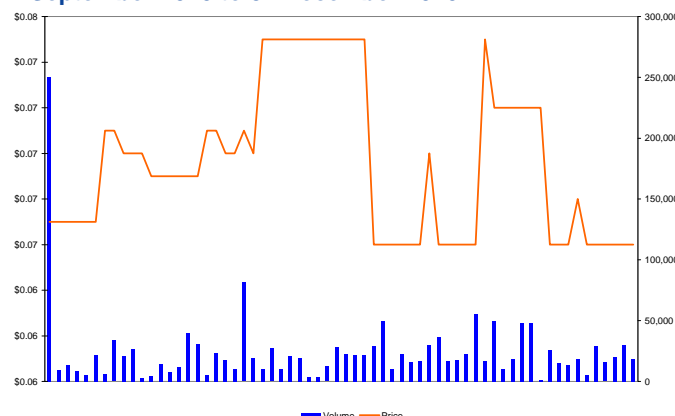
Managing Director Jenny Hutson said, 'This is a commercially satisfactory outcome in a matter which would have incurred significant costs in both the lead up to trial and the trial itself, regardless of the final outcome, and in excess of the settlement amount. This is a sensible outcome in a matter which has been before the courts for in excess of two years.'

Public Examinations

Public examinations of the officers and advisers of the Octaviar group continue to be conducted by the Liquidators. The Fund is not involved in the public examinations.

National Stock Exchange Update

Trading activity summary (NSX:PIN): 1 September 2010 to 31 December 2010



High	Low	Volume for period
7.5 cents	6.6 cents	1,574,878

Investor Advisory Committee

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

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

Report from committee members

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

Cash payment

Wellington advised that the cash payment to investors was made on 29 October 2010. There was discussion about when the next payment would be made, however Wellington advised that they were not in a position to advise when an additional payment would be made. Any additional payment will be advised in future investor updates.

Takeover offer

We discussed the continuing takeover offer, and the fact that ALF PIF Finance have extended the offer, which now closes on 28 February 2011. The terms of the offer haven't changed.

Public Examinations

We discussed the continuing public examinations, including the recent examinations of the Fortress staffers.

Wollongong

Wellington advised that a further 15 apartments remain for sale at Wollongong, however it appeared that the market had generally slowed. The hotel remains on the market.

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

Contact

Premium Income Fund

Hotline: 1300 854 885 [+617 3231 0000]
Fax: 1300 854 893 [+617 3231 0093]
Email: investorrelations@newpif.com.au
Web: www.newpif.com.au
Advisers: 1300 663 882 adviserservices@newpif.com.au

Wellington Capital Limited ACN 114 248 458 AFSL 291 562