

**LM MORTGAGE INCOME FUND****Notes to the financial statements for the year ended 30 June 2006****Compensation by category: Key Management Personnel**

	2006 Consolidated	2005 Scheme	2005 Scheme
	\$	\$	\$
Short term	23,994	23,994	15,920
Post employment	2,155	2,155	1,085
Other long term	-	-	-
Termination benefits	-	-	-
Equity based payment	-	-	-
Other	-	-	226
	<u>26,149</u>	<u>26,149</u>	<u>17,231</u>

**Loans to Specified KMP**

The Scheme has not made, guaranteed or secured, directly or indirectly any loans to the KMP or their related entities during the period.

Peter Charles Drake is a director and guarantor of Australian International Investment Services Pty Ltd which is a joint borrower in a loan facility outstanding to the Scheme as at 30 June 2006 for \$1,690,000 (MORT 2157). This transaction was approved on an arms length basis and is on normal terms and conditions.

**(c) Other Transactions and Balances with Specified KMP**

Other than those items disclosed in the related party note 11, the Scheme has no other transactions and balances with specified KMP.

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Scheme's principal financial instruments comprise units in managed investment schemes, investments in secured mortgages, net assets attributable to unitholders, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on the investment made by unitholders.

The Scheme also has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Scheme's financial instruments are interest rate risk and credit risk. The Responsible Entity reviews and agrees policies for managing each of these risks and they are summarised below.

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## LM MORTGAGE INCOME FUND

Notes to the financial statements for the year ended 30 June 2006

## 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

## a) Interest rate risk

*Interest rate risk exposures*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme and consolidated entity's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities, is set out below:

**CONSOLIDATED**

	Note	Weighted average interest rate		Floating Interest Rate		Securities contracted to mature in less than 1 year		Fixed interest rate Securities contracted to mature in more than 1 year but less than 5 years		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cash assets			%								
Secured mortgage loans (gross)	13(b)	5.54	5.32	32,995,697	46,917,405	-	-	-	-	39,754,106	46,917,405
Loan facility	8	10.11	10.20	-	-	685,393,934	387,361,145	180,714,839	225,309,358	869,108,773	612,670,503
	10	5.47	-	-	-	-	-	(30,416,662)	-	(30,416,662)	-
<b>Total</b>				32,995,697	46,917,405	685,393,934	387,361,145	150,298,177	225,309,358	878,446,217	659,587,908

All other financial assets and liabilities are non-interest bearing.

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## LM MORTGAGE INCOME FUND

Notes to the financial statements for the year ended 30 June 2006

## SCHEME

	Note	Weighted average interest rate		Floating Interest Rate		Fixed interest rate		Total	
		2006	2005	2006	2005	Securities contracted to mature in less than 1 year	Securities contracted to mature in more than 1 year but less than 5 years	2006	2005
Cash assets									
Secured mortgage loans (gross)	13(b)	5.54	5.32	32,645,002	46,917,405	-	-	32,645,002	46,917,405
Unsecured loan	9	10.11	10.20	-	-	685,393,934	183,714,839	869,108,773	612,670,503
Loan facility	10	6.5	-	-	-	-	6,000,000	6,000,000	-
	9	5.47	-	-	-	-	(30,416,662)	(30,416,662)	-
<b>Total</b>				32,645,002	46,917,405	685,393,934	387,361,145	884,446,217	659,587,908

All other financial assets and liabilities are non-interest bearing.

## LM MORTGAGE INCOME FUND

## Notes to the Financial Statements for the year ended 30 June 2006

## b) Credit risk exposure

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The total credit risk for recognised items including securities is therefore limited to the amount carried on the statement of financial position.

*Recognised financial instruments*

The Scheme minimises concentrations of credit risk by:

- undertaking credit assessment procedures on prospective borrowers;
- dealing with Australian regulated banks for cash balances;
- obtaining independent valuations for all loans; and
- maintaining an average loan to valuation ratios not exceeding 75% of the mortgage securities.

The percentage of loans secured by property in different geographical locations is as follows:

	2006	2005
Sydney CBD	1.27 %	1.84 %
Within 40km of Sydney CBD	25.98 %	26.24 %
New South Wales – Other	14.70 %	20.66 %
Melbourne – CBD	0.39 %	0.44 %
Within 40km of Melbourne CBD	9.9 %	12.04 %
Victoria – Other	4.17 %	7.26 %
Brisbane CBD	0.00 %	0.00 %
Within 40km of Brisbane CBD	18.50 %	15.06 %
Queensland – Other	12.31 %	4.41 %
Canberra – Other	4.30 %	6.64 %
NT	1.58 %	0.13 %
SA	6.71 %	3.25 %
WA	0.19 %	2.03 %
	100.00 %	100.00 %

As at 30 June 2006 39.4% of the balance of mortgage loans is secured on construction/development property (2005: 36.5%) and 60.5% on commercial property (2005: 63.5%).

The Scheme's maximum credit risk exposure at balance date in relation to mortgage loan is the carrying value of these assets as indicated in the statement of financial position. No single mortgage investment exceeds 10% of the Scheme which ensures that there is no concentration of risk.

## c) Liquidity and cash flow risk

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unit holder redemptions.

The Responsible Entity employs risk management strategies to ensure that the Scheme is able to meet its obligations as above. The liquidity risk associated with the need to satisfy unitholders requests for

## **LM MORTGAGE INCOME FUND**

### **Notes to the Financial Statements for the year ended 30 June 2006**

redemptions are mitigated by offering fixed term investment periods for investors and by maintaining sufficient cash funds to satisfy usual levels of demand for at-call investments.

In order to minimise liquidity risk, management assesses and monitors the liquidity requirements of both unitholder redemptions and investment activities and ensures that at all times the Scheme has adequate cash and cash equivalents to cover any unusual obligations and that liquidity is managed within the Scheme's policies and limits.

#### **d) Net fair values of financial assets and liabilities**

The Scheme's financial assets and liabilities included in the statement of financial position are carried at amounts that approximate net fair value

### **17. COMPOSITION OF CONSOLIDATED ENTITY**

On 22 December 2005, LM Mortgage Income Fund acquired 100% ownership of LM MIF Investments Pty Ltd, an unlisted company based in Australia newly formed on 22 December 2005.

From the date of acquisition, LM MIF Investment Pty Ltd has contributed nil to the net profit of the consolidated entity.

### **18. SEGMENT INFORMATION**

#### **(a) Business segment**

The Scheme is organised into one main business segment which operates solely in the business of investment management within Australia. The Scheme operates from Australia (the geographical segment).

#### **(b) Geographic segments**

The Scheme operates in Australia and all directly held assets are Australian.

### **19. COMMITMENTS AND CONTINGENCIES**

There are no material contingent assets and liabilities or commitments as at 30 June 2006.

### **20. EVENTS AFTER THE BALANCE SHEET DATE**

No significant events have occurred since balance date which would impact on the financial position of the consolidated entity disclosed in the balance sheet as at 30 June 2006 or on the results and cash flows of the consolidated entity for the year ended on that date.

**LM MORTGAGE INCOME FUND**

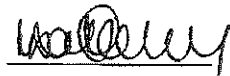
**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

- a) The financial statements and notes of the Registered Scheme set out on pages 6 to 34 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards and the Corporation Regulations 2001; and
  - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2006, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
- b) there are reasonable grounds to believe that the Scheme 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 provisions of the Scheme's Constitution.

On behalf of the Board

LM Investment Management Limited.



Lisa Darcy

Director

Gold Coast

21 August 2006



■ 1 Eagle Street  
Brisbane QLD 4000  
Australia

■ Tel 61 7 3011 3333  
Fax 61 7 3011 3100

PO Box 7878  
Waterfront Place  
Brisbane QLD 4001

## Independent audit report to unitholders of LM Mortgage Income Fund

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for LM Mortgage Income Fund ("the Scheme") and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the Scheme and the entities it controlled during that year.

The directors of the Responsible Entity of the Scheme are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Scheme and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the unitholders of the Scheme. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Scheme's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

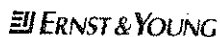
We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Scheme.

Liability limited by a scheme approved under  
Professional Standards Legislation



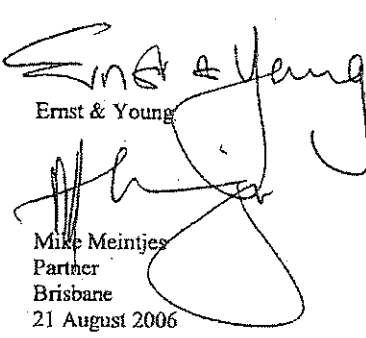
**Independence**

We are independent of the Scheme and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

**Audit opinion**

In our opinion the financial report of LM Mortgage Income Fund is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of LM Mortgage Income Fund and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young

Mike Meintjes  
Partner  
Brisbane  
21 August 2006



PW-37

Australian Securities &  
Investments Commission

024111855

## Form 388

Corporations Act 2001  
294, 295, 298-300, 307, 308, 319, 321, 322  
Corporations Regulations  
1.0.08

## Copy of financial statements and reports

If there is insufficient space in any section of the form, you may photocopy the relevant page(s) and submit as part of this lodgement

## Company/scheme details

Company/scheme name

LM FIRST MORTGAGE INCOME FUND

ACN/ARBN/ARSN/PIN/ABN

089 343 288

## Lodgement details

Who should ASIC contact if there is a query about this form?

Firm/organisation

LM Investment Management Ltd

Contact name/position description

Sharyn Halliwell

ASIC registered agent number (if applicable)

n/a

Telephone number

(07) 5584 4500

Postal address

PO Box 485

Surfers Paradise Qld 4217

RECEIVED

25 SEP 2007

BRISBANE BUSINESS  
CENTRE

## 1 Reason for lodgement of statement and reports

Tick appropriate box

- ☐ A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)
- ☒ A registered scheme (B)
- ☐ Amendment of financial statements or directors' report (company) (C)
- ☐ Amendment of financial statements or directors' report (registered scheme) (D)
- ☐ A large proprietary company that is not a disclosing entity (H)
- ☐ A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)
- ☐ A small proprietary company that is requested by ASIC to prepare and lodge statements and reports (J)
- ☐ A prescribed interest undertaking that is a disclosing entity (K)

Dates on which financial year begins  
and endsFinancial year begins  
01/07/06  
(D) (M) (Y)

to

Financial year ends  
30/06/07  
(D) (M) (Y)Date of annual general meeting  
(if applicable)
☐ ☐ ☐ ☐ ☐ ☐  
(D) (M) (Y)

## 2 Details of large proprietary company

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

A What is the consolidated revenue of the large proprietary company and the entities that it controls?

B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

C How many employees are employed by the large proprietary company and the entities that it controls?

D How many members does the large proprietary company have?

## 3 Auditor's report

Were the financial statements audited?

☒ Yes

☐ No

If no, is there a class order exemption current for audit relief?

☐ Yes

☐ No

If yes, does the auditor's report (s308) for the financial year contain a statement of:

Reasons for the auditor not being satisfied as to the matters referred to in s307?

☐ Yes

☒ No

Details of the deficiency, failure or shortcoming concerning any matter referred to in s307?

☐ Yes

☒ No

## 4 Details of current auditor

Registered schemes must advise ASIC of the appointment of an auditor on a Form 5137 Appointment of scheme auditor within 14 days of the appointment of the auditor.

Auditor registration number (for individual auditor or authorised audit company)

Family name

Given name

or

Company name

ACN/ABN

or

Firm name (if applicable)

#### 4 Continued... Details of current auditor

Office, unit, level <u>Waterfront Place</u>													
Street number and Street name <u>1 Eagle Street</u>													
Suburb/City <u>Brisbane</u>	State/Territory <u>QLD</u>												
Postcode <u>4000</u>	Country (if not Australia)												
Date of appointment <table border="1"> <tr> <td>0</td><td>1</td><td>1</td><td>0</td><td>0</td><td>3</td> </tr> <tr> <td>[D]</td><td>[D]</td><td>[M]</td><td>[M]</td><td>[Y]</td><td>[Y]</td> </tr> </table>		0	1	1	0	0	3	[D]	[D]	[M]	[M]	[Y]	[Y]
0	1	1	0	0	3								
[D]	[D]	[M]	[M]	[Y]	[Y]								

#### 5 Statements and reports to be attached to this form

Financial statements for the year (as per s295(2) and accounting standards)

Income statement for the year

Balance sheet as at the end of the year

Statement of cash flows for the year

Statement of changes in equity or statement of recognised income and expense for the year

If required by accounting standards - the consolidated income statement, balance sheet, statement of cash flows and statement of changes in equity/statement of recognised income and expense

Notes to financial statements (as per s295(3))

Disclosures required by the regulations

Notes required by the accounting standards

Any other information necessary to give a true and fair view (see s297)

The directors' declaration about the statements and notes (as per s295(4))

The directors' report for the year, including the auditor's independence declaration (as per s298 to s300A)

Auditor's report required under s308 and s314

Concise report (if any) (s314)

See Annexure A

#### Signature

I certify that the attached documents marked ( ) are a true copy of the annual reports required under s319.

See Guide for details of signatory.

Name  
LISA DARCY

Signature  
[Signature]

Capacity  
☒ Director  
☐ Company secretary

Date signed  

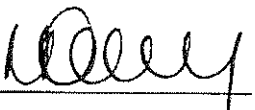
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[D]	[D]	[M]	[M]	[Y]	[Y]

#### Lodgement

Send completed and signed forms to:  
Australian Securities and Investments Commission,  
PO Box 4000, Gippsland Mail Centre VIC 3841.

For help or more information  
 Telephone 03 5177 3988  
 Email [info.enquiries@asic.gov.au](mailto:info.enquiries@asic.gov.au)  
 Web [www.asic.gov.au](http://www.asic.gov.au)

This is Annexure "A" of 36 Pages referred to in Form 388 – Copy of Financial Statement and Reports

  
\_\_\_\_\_  
LISA DARCY - DIRECTOR

## **LM FIRST MORTGAGE INCOME FUND**

(formerly LM Mortgage Income Fund)

**ABN: 66 485 247 488**

**Annual Report**

**For the year ended 30 June 2007**

**LM FIRST MORTGAGE INCOME FUND**

(formerly LM Mortgage Income Fund)

**ABN: 66 482 247 488**

Annual Report

For the year ended 30 June 2007

## LM FIRST MORTGAGE INCOME FUND

ABN: 66 482 247 488

Annual Report – 30 June 2007

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The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Ltd (ABN 68 077 208 461).  
The Responsible Entity's registered office is Level 4, RSL Building, 9 Beach Road, Surfers Paradise QLD 4217.

## LM FIRST MORTGAGE INCOME FUND

### Directors' Report

#### DIRECTORS' REPORT

The directors of LM Investment Management Limited, the Responsible Entity of the LM First Mortgage Income Fund, present their report together with the consolidated financial report of the LM First Mortgage Income Fund ("the Scheme") and its subsidiary ("the consolidated entity"), for the year ended 30 June 2007. The directors' report is not part of the financial report.

#### DIRECTORS

The following persons held office as directors of LM Investment Management Limited, during the year or since the end of the year and up to the date of this report:

Name	Period of directorship
Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003
Mr John Dillon	Appointed 8 June 2005
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Mulder	Appointed 30 September 2006
Mr John Vallander Llewellyn	Appointed 6 June 2007

#### PRINCIPAL ACTIVITIES

During the year, the Scheme continued the principal activity of investing unitholders' funds in registered first mortgages, unlisted managed investment schemes and cash investments in Australia, in accordance with the Scheme's Constitution and in accordance with the investment policy of the Scheme as outlined in the current product disclosure document.

During the year, the Scheme's name was changed to LM First Mortgage Income Fund.

The Scheme did not have any employees during the year.

#### SCHEME INFORMATION

The Scheme is an Australian registered scheme and was constituted in September 1999. The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited, who has been the Responsible Entity since registration of the Scheme.

The registered office and principal place of business of the Responsible Entity and the Scheme is Level 4, 9 Beach Road, Surfers Paradise, Queensland.

#### REVIEW OF RESULTS AND OPERATIONS

##### Results

During the year, the Scheme continued to invest directly in registered first mortgage loans secured by property in Australia, unlisted managed investment schemes and cash assets.

The change in net assets attributable to the unitholders of the Scheme is presented in the Income Statement. Net profit attributable to unitholders for the year ended 30 June 2007 was \$64,161,393 (2006: \$62,376,577).

Funds under management decreased by \$94,350,212 (2006: increased by \$184,988,266) to \$783,324,637 (2006: \$877,674,849). Funds under management from related managed investment schemes increased by \$38,950,000 (2006: \$77,239,000) to \$394,050,000 (2006: \$355,100,000).

**LM FIRST MORTGAGE INCOME FUND****Directors' Report**

The performance of the Scheme, as represented by the results of its operations, was as follows:

	30 June 2007	30 June 2006
	\$	\$
Net operating income/(loss) before distributions	64,161,393	62,376,577
Financing costs: Distributions to unitholders	(64,161,393)	(62,376,577)
(Increase) / decrease in net assets attributable to unitholders	-	-
<b>Net profit</b>	-	-

**UNITS ON ISSUE**

There were 783,324,637 units on issue at 30 June 2007 (2006: 877,674,849). During the year 253,296,241 units were issued by the Scheme (2006: 404,781,175) and 347,646,453 were withdrawn (2006: 219,782,909).

**SCHEME ASSETS**

At 30 June 2007, the Scheme held assets to a total value of \$879,253,887 (2006: \$914,245,175). The basis for valuation of assets is disclosed in Note 2 to the financial statements.

**FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATES**

The following fees were paid to LM Investment Management Limited and its associated companies out of Scheme property during the financial year, for funds management and administrative services provided on behalf of the Responsible Entity:

	2007	2006
	\$	\$
▪ Management fees for the financial year received directly from LM First Mortgage Income Fund by LM Administration Pty Limited	9,934,860	10,683,880
▪ Other expenses incurred by the Responsible Entity which are reimbursed in accordance with the provisions of the Constitution, including administration and custodian fees	386,755	794,401

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

During the year the Scheme's name was changed from LM Mortgage Income Fund to LM First Mortgage Income Fund.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Scheme that occurred during the financial year under review.



## **LM FIRST MORTGAGE INCOME FUND**

### **Directors' Report**

#### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected or may affect the Scheme's operations in future financial years, the results of those operations of the Scheme's state of affairs in future years.

#### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

Further information on likely developments in the operation of the Scheme and the expected results of those operations has not been included in this report because the Responsible Entity believes it would likely to result in unreasonable prejudice to the Scheme.

#### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The operations of the Scheme are not subject to any particular or significant environmental regulations under a law of the Commonwealth or a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

#### **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of LM Investment Management Ltd or the auditors of the Scheme. Provided the officers of LM Investment Management Ltd act in accordance with the Scheme Constitution and the Law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

#### **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 4.

Signed in accordance with a resolution of the Directors of LM Investment Management Limited.



Lisa Darcy  
Director  
Gold Coast

24 September 2007



■ 1 Eagle Street  
Brisbane QLD 4000  
Australia

■ Tel 61 7 3011 3333  
Fax 61 7 3011 3100

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Waterfront Place  
Brisbane QLD 4001

**Auditor's Independence Declaration to the Directors of LM Investment Management Limited as Responsible Entity for LM First Mortgage Income Fund**

In relation to our audit of the financial report of LM First Mortgage Income Fund for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

*Ernst & Young*

Ernst & Young

*Paula McLuskie*

Paula McLuskie  
Partner  
Brisbane  
24 September 2007

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**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**INCOME STATEMENT**

For the year ended 30 June 2007

		30 June 2007		30 June 2006	
	Notes	Consolidated	Scheme	Consolidated	Scheme
		\$	\$	\$	\$
<b>Income</b>					
Changes in the fair value of investments	3(a)	377,052	-	2,136,504	1,123,754
Interest revenue – loans and advances	3(b)	80,704,491	81,106,122	75,358,111	76,307,718
Interest revenue – cash assets	3(b)	3,449,423	3,424,562	2,220,819	2,201,006
Other income	3(a)	3,945,714	3,945,714	2,328,033	2,328,033
<b>Total revenue and other income</b>		<b>88,476,680</b>	<b>88,476,398</b>	<b>82,043,467</b>	<b>81,960,511</b>
<b>Expenses</b>					
Management fees	11	9,934,860	9,934,860	10,683,880	10,683,880
Custodian fees		185,054	185,054	305,059	305,059
Advisor commissions		3,856,517	3,856,517	4,180,916	4,180,916
Impairment losses on loans and receivables	9(d)	2,563,242	2,563,242	2,714,072	2,714,072
Finance costs		3,520,151	3,520,151	1,149,900	1,149,900
Legal fees		35,411	35,411	7,262	7,262
Other expenses	4	4,220,052	4,219,770	625,801	542,845
<b>Total expenses excluding distributions to unitholders</b>		<b>24,315,287</b>	<b>24,315,005</b>	<b>19,666,890</b>	<b>19,583,934</b>
<b>Net profit attributable to unitholders</b>		<b>64,161,393</b>	<b>64,161,393</b>	<b>62,376,577</b>	<b>62,376,577</b>
Distributions to unitholders	3(c)/7	(64,161,393)	(64,161,393)	(62,376,577)	(62,376,577)
<b>Changes in net assets attributable to unitholders</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Income tax expense		-	-	-	-
<b>Changes in net assets attributable to unitholders after income tax expense</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**LM FIRST MORTGAGE INCOME FUND****Notes to the financial statements 30 June 2007****BALANCE SHEET****As at 30 June 2007**

		30 June 2007		30 June 2006	
		Consolidated \$	Scheme \$	Consolidated \$	Scheme \$
	Notes				
<b>ASSETS</b>					
Cash and cash equivalents	13	28,593,772	28,332,244	32,995,697	32,645,002
Receivables	12	6,997,000	6,934,391	4,341,766	4,278,131
Prepayments		3,482,170	3,482,170	4,729,647	4,729,647
Investments	8	5,654,350	1	5,659,827	1
Loans and receivables	9				872,592,39
		834,505,081	840,505,081	866,592,394	4
					914,245,17
<b>TOTAL ASSETS</b>		879,232,373	879,253,887	914,319,331	5
<b>LIABILITIES</b>					
Payables		481,752	503,266	946,819	872,663
Interest bearing loans and borrowings	10	90,466,662	90,466,662	30,416,662	30,416,662
Distributions payable	3(c)	4,959,322	4,959,322	5,281,001	5,281,001
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		95,907,736	95,929,250	36,644,482	36,570,326
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	6	783,324,637	783,324,637	877,674,849	877,674,849

**STATEMENT OF CHANGES IN EQUITY****For the year ended 30 June 2007**

Net assets of the Scheme that are attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year. A *Statement of Changes in Net Assets Attributable to Unitholders* is disclosed in note 6.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**CASH FLOW STATEMENT**  
**For the year ended 30 June 2007**

		30 June 2007		30 June 2006	
	Notes	Consolidated \$	Scheme \$	Consolidated \$	Scheme \$
<b>Cash flows from operating activities</b>					
Interest and distributions received		84,345,317	84,407,643	80,038,119	79,955,165
Management fees paid		(10,467,111)	(10,467,111)	(11,631,560)	(11,631,561)
Other operating expenses		(10,155,548)	(10,059,596)	(14,742,989)	(14,491,321)
Other income received		1,611,118	1,547,484	3,287,894	3,287,894
GST and withholding tax (paid)/received		(481,965)	(481,965)	911,414	911,414
<b>Net cash inflow/(outflow) from operating activities</b>	13(b)	64,851,811	64,946,455	57,862,878	58,031,591
<b>Cash flows from investing activities</b>					
Payments for secured mortgage loans		(435,242,800)	(435,242,800)	(575,024,453)	(610,919,745)
Receipts from settled mortgage loans		464,782,349	464,776,872	316,057,835	411,700,381
Payments for purchase of investments		-	-	(7,375,912)	(75,321,273)
Receipts from sale of investments		-	-	40,321,273	48,000,000
<b>Net cash inflow/(outflow) from investing activities</b>		29,529,549	29,524,072	(226,021,257)	(226,540,637)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		60,050,000	60,050,000	30,416,662	30,416,662
Receipts from the issue of units		236,754,786	236,754,786	387,598,304	387,598,304
Distributions paid		(47,941,585)	(47,941,585)	(43,995,087)	(43,995,087)
Payment for redemption of units		(347,646,486)	(347,646,486)	(219,782,909)	(219,782,909)
<b>Net cash inflow/(outflow) from financing activities</b>		(98,783,285)	(98,783,285)	154,236,970	154,236,970
<b>Net increase/(decrease) in cash and cash equivalents</b>		(4,401,925)	(4,312,758)	(13,921,409)	(14,272,103)
<b>Cash and cash equivalents at beginning of the year</b>		32,995,697	32,645,002	46,917,105	46,917,105
<b>Cash and cash equivalents at the end of the year</b>	13(a)	28,593,772	28,332,244	32,995,697	32,645,002

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the financial statements 30 June 2007**

#### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

##### **1. CORPORATE INFORMATION**

The financial report of LM First Mortgage Income Fund ("the Scheme") for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 24 September 2007.

The Scheme is an Australian registered Scheme, constituted on 13 April 1999. The Scheme will terminate on 13 April 2080 unless terminated earlier in accordance with the provision of the Scheme Constitution (as amended).

LM Investment Management Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 4, 9 Beach Road, Surfers Paradise, Queensland.

##### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

###### **a) Basis of accounting**

This financial report is a general purpose financial report that has been prepared in accordance with the Scheme Constitution, and the requirements of the Corporations Act 2001, which includes applicable Accounting Standards.

The financial statements have been prepared under the historical cost convention, except for the valuation of investments in financial assets, which have been measured at fair value or amortised cost.

The balance sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items, in accordance with AASB 101 – *Presentation of Financial Statements*.

###### **b) Statement of compliance**

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2007 are shown in the following tables. None of the standards issued or amended have an impact on the accounting policies adopted by the Syndicate.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

<b>AASB Amendment/Standard</b>	<b>Title</b>	<b>Application date of standard</b>	<b>Application date for the Scheme.</b>
2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	1 January 2009	1 July 2009
2007-4	Amendments to Australian Accounting Standards arising from ED 151 and other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, & AASB 1038]	1 July 2007	1 July 2007
AASB 101	Presentation of Financial Statements	1 January 2007	1 July 2007
AASB 8	Operating Segments	1 January 2009	1 July 2009

The following amendments are not applicable to the Scheme and therefore have no impact.

<b>AASB Amendment</b>	<b>Title</b>
2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]
2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]

**c) Basis of consolidation**

This consolidated financial report comprises the financial report of LM First Mortgage Income Fund and its subsidiary as at 30 June 2007 ("the consolidated entity"). The financial report of the subsidiary is prepared for the same reporting period as the Scheme, using consistent accounting policies.

In preparing the consolidated financial statements all intercompany balances and income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

**d) Significant accounting judgements, estimates and assumptions**

**(i) Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the financial statements 30 June 2007**

#### **(ii) Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### *Allowance for impairment loss on loans and receivables*

The Scheme determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of future cash flows. The Scheme's policy for calculation of impairment losses is disclosed in Note 2(h)(ii).

#### **e) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **f) Income**

Income is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

##### **i) Dividend and distribution income**

Dividend or distribution income is recognised when the shareholders' or unitholders' right to receive the payment is established.

##### **ii) Interest income**

Interest income is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

##### **iii) Changes in the fair value of investments**

Gains or losses on investments held for trading are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

#### **g) Finance costs**

Interest on borrowings is recognised in the income statement in the period to which it relates. Issue costs associated with borrowings are capitalised and amortised over the term of the borrowing to which they relate using the effective interest method.



## LM FIRST MORTGAGE INCOME FUND

### Notes to the financial statements 30 June 2007

#### **h) Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The consolidated entity determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Scheme commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

##### **i) Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

##### **ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for doubtful debts when there is objective evidence that the consolidated entity will not be able to collect the receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as an expense in the income statement.

The amount provided for impairment of loans is determined by management of the Scheme and the Credit Committee. A provision is made of loans in arrears where the collectibility of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The components of impaired assets are as follows:

"Loans in arrears" are loans and advances for which there is reasonable doubt that the Scheme will be able to collect all amounts of principal and interest in accordance with the terms of the agreement.

"Assets acquired through the enforcement of security" are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

"Restructured loans" arise when the borrower is granted a concession due to continuing difficulties in

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the financial statements 30 June 2007**

meeting the original terms and new terms are not comparable to the revised terms. These loans are removed from 'restructure loans' after a period of 12 months of performance against loan revised terms and conditions. Loans with revised terms are included in 'loans in arrears' when impairment provisions are required.

#### **i) Advisor Commissions**

Advisor commissions may be paid to the unitholders' investment advisors and are calculated as a percentage of funds invested in the Scheme. These commissions are paid monthly in arrears and are brought to account on an accrual basis. The Scheme ceases to pay advisor commissions when the related units are redeemed.

#### **j) Payables**

Payables are carried at amortised cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchases of these goods and services.

The distribution amount payable to investors as at the reporting date is recognised separately on the balance sheet as unit holders are presently entitled to the distributable income as at 30 June 2007 under the Scheme's Constitution.

#### **k) Increase/decrease in net assets attributable to unitholders**

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax. Excess and undistributed income is also transferred directly to net assets attributable to unitholders.

#### **l) Distributions**

In accordance with the Scheme's Constitution, the Scheme fully distributes its distributable income to unitholders. Distributions are payable monthly. Such distributions are determined by reference to the taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments, realised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

#### **m) Goods and services tax (GST)**

The GST incurred on the costs of various services provided to the Responsible Entity by third parties such as audit fees, custodial services and investment management fees, have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Hence investment management fees, custodial fees and other expenses have been recognised in the statement of financial performance net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the financial statements 30 June 2007**

ATO is included in receivable in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

The GST component of cash flows arising from investing and financing activities recoverable or payable to the ATO is classified as an operating cash flow.

#### **n) Applications and redemptions**

Applications received for units in the Scheme are recorded when units are issued in the Scheme. Redemptions from the Scheme are recorded when the cancellation of units redeemed occurs. Unit redemption prices are determined by reference of the net assets of the Scheme divided by the number of units on issue.

#### **o) Income tax**

Under current legislation, the Scheme is not subject to income tax provided the distributable income of the Scheme is fully distributed either by way of cash or reinvestment (ie Unitholders are presently entitled to the income of the Scheme).

The price of a unit is based upon market values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax. Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

#### **p) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**3. FINANCE INCOME AND DISTRIBUTIONS TO UNITHOLDERS**

**a) Non-Interest income**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Changes in the fair value of investments	377,052	-	2,136,504	1,123,754
Other income:				
Default management fees	3,497,077	3,497,077	2,112,240	2,112,240
Other income	448,637	448,637	215,793	215,793
	<u>3,945,714</u>	<u>3,945,714</u>	<u>2,328,033</u>	<u>2,328,033</u>

**b) Interest income**

	2007					
	Consolidated			Scheme		
	Average balance	Income	Average rate	Average balance	Income	Average rate
	\$	\$	%	\$	\$	%
Cash assets	61,964,147	3,449,423	5.57%	61,515,754	3,424,562	5.57%
Loans and advances	819,492,029	80,704,491	9.85%	819,992,024	77,480,436	9.89%
	<u>881,456,176</u>	<u>84,153,914</u>	<u>9.55%</u>	<u>881,507,778</u>	<u>80,904,998</u>	<u>9.59%</u>

	2006					
	Consolidated			Scheme		
	Average balance	Income	Average rate	Average balance	Income	Average rate
	\$	\$	%	\$	\$	%
Cash assets	40,199,809	2,220,819	5.52%	39,754,106	2,201,005	5.54%
Loans and advances	728,142,186	75,358,111	10.65%	752,713,615	78,508,724	10.14%
	<u>768,341,995</u>	<u>77,578,930</u>	<u>10.10%</u>	<u>792,467,721</u>	<u>76,307,718</u>	<u>10.43%</u>

**c) Distributions to unitholders**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Distributions paid	59,202,071	59,202,071	56,555,576	56,555,576
Distributions payable	4,959,322	4,959,322	5,821,001	5,821,001
	<u>64,161,393</u>	<u>64,161,393</u>	<u>62,376,577</u>	<u>62,376,577</u>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**4. OTHER EXPENSES**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Loan origination expenses	3,381,487	3,381,487	172,620	172,620
Auditor's remuneration	196,441	196,441	90,265	90,265
Product disclosure statement production costs	134,413	134,413	57,734	57,734
Other expenses	507,711	507,430	305,182	222,226
	<u>4,220,052</u>	<u>4,219,771</u>	<u>625,801</u>	<u>542,845</u>

**5. AUDITOR'S REMUNERATION**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Audit and review of the financial reports	182,464	182,464	75,740	75,740
Other regulatory audit services	13,977	13,977	14,525	14,525
	<u>196,441</u>	<u>196,441</u>	<u>90,265</u>	<u>90,265</u>

These expenses have been included within 'Other Expenses' in the Income Statement.

**6. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

All units in the Scheme are attributed with a value of \$1. The units on issue in the Scheme and the consolidated entity are equal. Movements in number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2007 Scheme \$/#	30 June 2006 Scheme \$/#
<b>Net assets attributable to unitholders</b>		
<b>Class A</b>		
Opening balance	522,574,849	414,815,583
Units issued during the year	65,204,786	219,907,304
Units redeemed during the year	(215,046,454)	(129,330,909)
Units issued upon reinvestment of distributions	16,541,489	17,182,871
<b>Closing Balance</b>	<u>389,274,670</u>	<u>522,574,849</u>
<b>Class B</b>		
Opening balance	355,100,000	277,861,000
Units issued during the year	171,550,000	167,691,000
Units redeemed during the year	(132,600,000)	(90,452,000)
Units issued upon reinvestment of distributions	-	-
<b>Closing Balance</b>	<u>394,050,000</u>	<u>355,100,000</u>

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**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

TOTAL	30 June 2007		30 June 2006	
	#	\$	#	\$
Opening balance	877,674,849	877,674,849	692,676,583	692,676,583
Units issued during the year	236,754,786	236,754,786	387,598,304	387,598,304
Units redeemed during the year	(347,646,453)	(347,646,453)	(219,782,909)	(219,782,909)
Units issued on reinvestment of distributions	16,541,455	16,541,455	17,182,871	17,182,871
Transfers to and from the income statement		-		-
<b>Closing Balance</b>	<b>783,324,637</b>	<b>783,324,637</b>	<b>877,679,849</b>	<b>877,674,849</b>

Class A consists of unit holders who are entitled to receive the declared distribution rate.

Class B consists of unit holders with an investment greater than \$1,000,000. The distribution rate will be determined by the Responsible Entity. The Responsible Entity has the discretion to waive the whole or part of the 1% trailing commission and the whole or part of its management fee for this class of unit holders.

All unitholders are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at unitholders' meetings. In the event of winding up of the Scheme, all unitholders rank after creditors and are equally entitled to the proceeds of liquidation.

**7. DISTRIBUTIONS TO UNITHOLDERS**

Distributions	30 June 2007	30 June 2006
	\$	\$
Class A	34,369,906	36,587,325
Class B	29,791,489	25,789,252
	<u>64,161,395</u>	<u>62,376,577</u>

**8. INVESTMENTS**

		2007	2007	2006	2006
		Consolidated	Scheme	Consolidated	Scheme
		\$	\$	\$	\$
Financial assets held at fair value through profit and loss	(i)	5,654,350	-	5,659,827	-
Investment in subsidiary	(ii)	-	1	-	1
		<u>5,654,350</u>	<u>1</u>	<u>5,659,827</u>	<u>1</u>

- i). At 30 June 2007, the consolidated entity held 4,978,736 units in the PM Capital Enhanced Yield Fund (2006: 4,978,736). The unit price at 30 June 2007 was \$1.1357 (2006: \$1.1368).
- ii). The Scheme owns 100% of the issued share capital of \$1 of LM MIF Investments Pty Limited at 30 June 2007.

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**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**9. LOANS AND RECEIVABLES**

	<b>30 June 2007</b>		<b>30 June 2006</b>	
	<b>Consolidated</b>	<b>Scheme</b>	<b>Consolidated</b>	<b>Scheme</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Secured Mortgage Loans	835,530,336	835,530,336	868,300,393	868,300,393
Other Unsecured Loans – related party	-	6,000,000	-	6,000,000
Provision for impairment	(1,025,255)	(1,025,255)	(1,707,999)	(1,707,999)
Net loans and advances	<u>834,505,081</u>	<u>840,505,081</u>	<u>866,592,394</u>	<u>872,592,394</u>

**a) Aggregate amounts receivable from related parties**

Directors and director-related entities	-	-	-	-
Other related entities	-	6,000,000	-	6,000,000
Related managed investment schemes	-	-	-	-
Provision for impairment	-	-	-	-
	<u>-</u>	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>

**b) Maturity analysis – Secure Mortgage Loans**

Less than 3 months	201,435,919	201,435,919	170,717,544	170,717,544
3-6 months	144,628,228	144,628,228	152,224,418	152,224,418
6-12 months	54,191,912	54,191,912	361,643,592	361,643,592
12-18 months	224,938,707	224,938,707	89,620,092	89,620,092
18-24 months	49,981,868	49,981,868	10,716,137	10,716,137
24-36 months	68,573,704	68,573,704	32,691,153	32,691,153
36-48 months	51,154,823	51,154,823	10,610,549	10,610,549
48-60 months	40,625,175	40,625,175	40,076,908	40,076,909
	<u>835,530,336</u>	<u>835,530,336</u>	<u>868,300,393</u>	<u>868,300,393</u>

**c) Concentration of risk**

As at 30 June 2007 no individual loan was greater than 10% of net assets attributable to unit holders.

**d) Provisions for impairment**

The impairment loss expense relating to loans and receivables comprises:

Specific provision	1,543,070	1,543,070	1,707,999	1,707,999
Collective impairment provision	-	-	-	-
Impairment losses recognised directly in the Income Statement	<u>1,020,172</u>	<u>1,020,172</u>	<u>1,006,073</u>	<u>1,006,073</u>
	<u>2,563,242</u>	<u>2,563,242</u>	<u>2,714,072</u>	<u>2,714,072</u>

## LM FIRST MORTGAGE INCOME FUND

## Notes to the financial statements 30 June 2007

9. LOANS AND RECEIVABLES (cont)	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
<i>Specific Provision</i>				
Opening balance	1,707,999	1,707,999	-	-
Impairment losses provided for during year	1,543,070	1,543,070	1,707,999	1,707,999
Utilisation of provisions (loans realised)	(2,225,814)	(2,225,814)	-	-
Closing balance	1,025,255	1,025,255	1,707,999	1,707,999
<i>Collective impairment provision</i>				
Opening balance	-	-	-	-
Impairment losses provided for during year	-	-	-	-
Closing balance	-	-	-	-
<b>TOTAL PROVISION</b>	<b>1,025,255</b>	<b>1,025,255</b>	<b>1,707,999</b>	<b>1,707,999</b>

The collective provision for impairment is calculated by placing loans into pools with similar risk characteristics and collectively assessing for impairment.

*Movement in Default loans*

Gross default loans opening balance	42,661,029	42,661,029	8,158,730	8,158,730
New and increased default loans	103,145,841	103,145,841	35,508,371	35,508,371
Balances written off	(1,020,709)	(1,020,709)	(1,006,072)	(1,006,072)
Returned to performing or repaid	(60,959,777)	(60,959,777)	-	-
Gross default loans closing balance	83,826,384	83,826,384	42,661,029	42,661,029
Specific provision	(1,025,254)	(1,025,254)	(1,707,999)	(1,707,999)
<b>Net default loans</b>	<b>82,801,130</b>	<b>82,801,130</b>	<b>40,953,030</b>	<b>40,953,030</b>

Subsequent to balance date, default loans totalling \$18,005,763 have been repaid. Further, the Directors of the Responsible Entity are in the process of finalising the sale of secured property in relation to default loans totalling \$21,381,314 at balance date.

## 10. INTEREST BEARING LOANS AND BORROWINGS

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Secured bank loan	90,446,662	90,446,662	30,416,662	30,416,662

In May 2007, the Scheme extended its financing agreement to access to \$150m for a period of 2 years, thereafter extendable at the bank's option (2006: \$100m). When drawn, the loan is secured by the assets of the Scheme and are repayable within 12 months.



**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**11. RELATED PARTIES**

***Responsible Entity***

The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited (ABN 68 077 208 461). Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Ltd, an associate of the Responsible Entity. LM Administration Pty Ltd is paid a management fee directly from the Scheme.

***Custodian***

The Custodian of the Scheme is Trust Company of Australia Limited.

***Directors***

The names of each person holding the position of director of LM Investment Management Limited during the financial year are disclosed in Note 14.

***Directors' remuneration***

No amounts are paid by the Scheme directly to the directors of the Responsible Entity. The amount of remuneration paid by the Responsible Entity and its related parties to directors of the Responsible Entity in connection with their responsibilities for the Scheme is separately identified in Note 14.

***Directors' holdings of units***

The interests of LM Investment Management Limited and its associates in the Scheme at year-end are set out below.

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
- LM Investment Management Limited	-	-	192,138	192,138
- Directors and director related entities	20,017	20,017	-	-
- Other Associates of LM Investment Management Limited	394,050,000	394,050,000	355,100,000	355,100,000
	394,050,000	0	355,100,000	355,100,000

***Investing activities***

The Scheme may purchase and sell units in other approved schemes or investment entities operated by LM Investment Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those schemes. At 30 June 2007 the Scheme had no investments in other schemes operated by LM Investment Management Limited or its affiliates (2006: nil).

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

***Other transactions with the Scheme***

From time to time the directors of LM Investment Management Limited, or their director-related entities, may invest or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors. Apart from the details disclosed in this note, no director has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Limited, an associate of the Responsible Entity. LM Administration Pty Ltd is paid a management fee for these services directly from Scheme assets.

During the year, LM Investment Management Limited was paid loan origination fees directly from borrowers. Loan origination fees received by the Scheme during the year were \$3,625,686 (2006: \$172,620) of which \$3,381,487 was reimbursed by the Scheme to the Responsible Entity for the administration of loan origination services (2006: \$172,620).

The Scheme owns 100% of the share capital of LM MIF Investments Pty Limited, an entity incorporated to invest in 'at call' securities on behalf of the Scheme. The Scheme advances unsecured, interest bearing funds to LM MIF Investments Pty Ltd. The interest rate charged on the loan approximates the return achieved from the investments undertaken on the Scheme's behalf. The RE does not receive any fees as a result of this loan. As at 30 June 2007, the net assets of LM MIF Investments Pty Ltd were nil (2006: nil) LM MIF Investment Pty Limited's net profit for the year was nil (2006: nil).

In June 2007, a related scheme, the LM Managed Performance Fund entered into a joint venture with an unrelated borrower of the Scheme. The Scheme has advanced \$4,725,000 to the LM Managed Performance Fund, which is secured by the assets of the unrelated borrower and by a guarantee from the LM Managed Performance Fund. This loan has been subject to the normal credit approval review procedures of the Scheme.

The LM Managed Performance Fund has second mortgages on loans that are first mortgages of the LM First Mortgage Income Fund totalling \$18,718,980 (2006: \$19,636,287). The LM Managed Performance Fund may on occasion pay development and construction costs on those related loans.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
<b><i>Total remuneration received or due and receivable</i></b>				
■ Fees for the year paid directly by the Scheme to LM Administration Pty Ltd	9,934,860	9,934,860	10,683,880	10,683,880
■ Fees earned by LM Administration Pty Ltd from other approved schemes invested in by Scheme.	-	-	-	-
■ Other expenses including administration expenses incurred by the Responsible Entity, which are reimbursed to the Responsible Entity in accordance with the provisions of the Constitution.	386,755	386,755	489,342	489,342
<b><i>Custodian's remuneration</i></b>				
■ Custodian's fees paid by the Scheme	185,054	185,054	305,059	305,059
<b><i>Balance with related parties</i></b>				
Aggregate amounts receivable from related parties by the Scheme were as follows:				
■ LM Administration Pty Limited (management fees prepaid by the Scheme)(i)	2,793,556	2,793,556	3,869,587	3,869,587
■ LM MIF Investments Pty Limited (ii)	-	6,000,000	-	6,000,000
■ Australian International Investments Pty Limited (iii)	2,520,000	2,520,000	1,690,000	1,690,000

- i). These amounts are included in prepayments. No amounts are payable to related parties by the Scheme. The average monthly balance of prepayments during the year was \$7,204,945 (2006: \$3,504,032) which was non-interest bearing. Interest foregone on the above amount if calculated at the weighted average cash rate of 5.57% would have been \$401,315 (2006: \$194,123). If this revenue had been collected, the sum foregone would have been paid to LM Administration Pty Ltd as management fees during the year.
- ii). LM MIF Investments Pty Limited has an unsecured interest bearing loan with the Scheme. This facility was entered into on an arms length basis and is on normal terms and conditions.
- iii). Peter Charles Drake is a director and guarantor of Australian International Investment Services Pty Ltd which is a joint borrower in a loan facility outstanding to the Scheme as at 30 June 2007 for \$2,520,000 (2006: \$1,690,000). This transaction was approved on an arms length basis and is on normal terms and conditions.

**LM FIRST MORTGAGE INCOME FUND****Notes to the financial statements 30 June 2007***Unitholder investing activities*

Details of holdings in the Scheme by LM Investment Management Limited, its affiliates including directors and director related persons or other schemes managed by LM Investment Management Limited are set out below:

Entity	Investment at year end #	Interest held in the scheme at year end	Units issued during the year	Units redeemed during the year	Distributions paid and payable
<b>30 June 2007</b>					
LM Currency Protected Australian Income Fund	161,500,000	19.30%	109,400,000	14,900,000	9,244,308
LM Institutional Currency Protected Australian Income Fund	28,750,000	3.44%	32,050,000	3,300,000	916,401
LM Managed Performance Fund	4,800,000	0.57%	22,100,000	22,400,000	716,572
LM Wholesale First Mortgage Income Fund	199,000,000	23.78%	8,000,000	92,000,000	18,914,207
LM Investment Management Ltd	-	-	4,510	196,648	3,207
James and Pamela Craig	-	-	10,961	325,705	8,828
Harold Ward	20,017	0.00%	1,568	1,551	1,664
<b>Total</b>	<b>394,070,017</b>	<b>47.09%</b>	<b>171,567,039</b>	<b>133,123,903</b>	<b>29,805,187</b>

Entity	Investment at year end #	Interest held in the scheme at year end	Units issued during the year	Units redeemed during the year	Distributions paid and payable
<b>30 June 2006</b>					
LM Currency Protected Australian Income Fund	67,000,000	7.63%	61,395,000	8,785,000	2,546,668
LM Managed Performance Fund	5,100,000	0.58%	20,420,000	17,840,000	871,807
LM Wholesale First Mortgage Income Fund	283,000,000	32.24%	85,500,000	59,500,000	22,271,669
LM Investment Management Ltd	192,138	0.02%	-	-	-
James and Pamela Craig	314,743	0.04%	300,000	-	14,832
Harold Ward	20,041	0.00%	20,000	-	36
<b>Total</b>	<b>355,626,922</b>	<b>40.51%</b>	<b>167,635,000</b>	<b>86,125,000</b>	<b>5,705,012</b>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**12. RECEIVABLES**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Interest and distribution receivable	62,609	-	212,146	148,511
Mortgage interest receivable	1,899,384	1,899,384	1,808,959	1,808,959
Penalty interest receivable	114,776	114,776	82,163	82,163
Default management fees receivable	4,834,917	4,834,917	2,112,240	2,112,240
GST receivable	85,314	85,314	121,769	121,769
Other	-	-	4,489	4,489
	<u>6,997,000</u>	<u>6,934,391</u>	<u>4,341,766</u>	<u>4,278,131</u>

**13. CASH AND CASH EQUIVALENTS**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
<b>a) Reconciliation of cash and cash equivalents</b>				
For the purposes of the Balance Sheet and Cash Flow Statement, cash and cash equivalents comprise:				
- Cash at bank and in hand	28,593,772	28,332,244	32,995,697	32,645,002

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.  
The fair value of cash and cash equivalents is \$28,593,772 (2006: \$32,995,697).

**b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities**

	30 June 2007		30 June 2006	
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Change in net assets attributable to unitholders	-	-	-	-
<i>Adjustments for:</i>				
Non cash impairment expense	2,563,242	2,562,242	2,714,072	2,714,072
Distributions to unitholders	64,161,393	64,161,393	62,376,577	62,376,577
(Increase)/decrease in interest and distribution receivable	(2,908,324)	(2,845,715)	(6,064,088)	(5,820,918)
(Increase)/decrease in other receivables	1,500,567	1,436,935	(1,100,004)	(1,100,004)
Increase/(decrease) in payables	(465,067)	(369,400)	(63,679)	(138,136)
Net cash flows from/(used in) operating activities	<u>64,851,811</u>	<u>64,946,455</u>	<u>57,862,878</u>	<u>58,031,591</u>

**c) Reinvestment of distributions**

During the financial year, the Scheme issued 16,541,489 units (2006: 17,182,871) as a result of reinvestment of distribution by unitholders totalling \$16,541,489 (2006: \$17,182,871). These transactions have not been included in the Cash Flow Statement.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

**14. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Details of Key Management Personnel**

*(i) Key Management Personnel*

The Key Management Personnel (KMP) of the Scheme were deemed to be the Directors of the Responsible Entity. The Directors of the responsible entity during the year were:

*Executive directors*

Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006

*Non-executive directors*

Mr John Dillon	Appointed 8 June 2005
Mr John Vallander Llewellyn	Appointed 1 June 2007

**(b) Compensation of Key Management Personnel**

*(i) Compensation Policies and Principles*

Remuneration of KMP is paid by LM Administration Pty Ltd, appointed by LM Investment Management Ltd as per its service agreement with that entity. The KMP do not receive any remuneration directly from the Scheme and there are no agreements in place between the KMP and the Scheme. The remuneration of KMP as disclosed below has been allocated based on the each KMP's cost of remuneration applicable to the Scheme. The principles used to allocate these costs (for disclosure purposes only) are discussed below.

*(ii) Executive Directors*

The Executive Directors of the Board of the Directors of LM Investment Management Ltd are responsible for determining and reviewing compensation arrangements for the KMP of the Responsible Entity. The Executive directors assess the appropriateness of the nature and amount of emoluments of the KMP on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Responsible Entity.

It is the Executive Directors' policy that employment agreements shall only be entered into with the Executive Directors of the Responsible Entity, but with no other parties.

*(iii) Non-executive directors*

Fees paid to non-executive directors are based on decisions made by the Executive Directors. This takes into account workload requirements and responsibilities of each Director. Fees for duties as Directors are not paid to executive Directors as their remuneration is provided as part of their normal terms and conditions.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the financial statements 30 June 2007**

*(iv) Principles of KMP Remuneration Allocations*

For all schemes managed by the Responsible Entity, the cost of total KMP remuneration has been allocated to each scheme. The Responsible Entity has estimated the amount of time spent by each KMP performing responsibilities and duties to individual schemes, and on a percentage basis, has allocated the remuneration cost to each scheme. Where a KMP has not spent time specifically on a scheme, but rather has acted in a role as KMP of the Responsible Entity only, remuneration cost has been allocated evenly across all schemes.

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## LM FIRST MORTGAGE INCOME FUND

Notes to the financial statements 30 June 2007

## (v) Remuneration of KMP

2007 Specified KMP	Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Super	Retirement Benefits	Equity	Other	TOTAL	Total performance related %
Drake, PC*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	% -
Darcy, LM**	23,488	-	-	2,114	-	-	-	25,602	-
van der Hoven, E	17,532	-	-	1,578	-	-	-	19,110	-
Mulder, Francene	11,139	-	-	1,002	-	-	-	12,141	-
Dillon, J	2,500	-	-	255	-	-	-	2,725	-
Llewellyn, JV	173	-	-	16	-	-	-	189	-
	54,832	-	-	4,965	-	-	-	59,867	-

2006 Specified KMP	Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Super	Retirement Benefits	Equity	Other	TOTAL	Total performance related %
Drake, PC*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	% -
Darcy, LM**	18,107	-	-	1,630	-	-	-	19,737	-
van der Hoven, E	284	-	-	26	-	-	-	310	-
Came, M	3,034	-	-	273	-	-	-	3,307	-
Dillon, J	2,519	-	-	227	-	-	-	2,746	-
	23,944	-	-	2,156	-	-	-	26,100	-

\* Peter Charles Drake is the beneficial owner of 100% of the ordinary shares of the Responsible Entity. No salary and wages are paid to Peter Drake directly from the company or any of the schemes.

\*\* As executives of the Responsible Entity, LM Darcy and E van de Hoven are entitled to a termination benefit that is payable on cessation of employment or a significant change in ownership of the company. No amount has been reflected in the above disclosures in relation to this potential future benefit.



**LM FIRST MORTGAGE INCOME FUND****Notes to the financial statements for the year ended 30 June 2007****Compensation by category: Key Management Personnel**

	2007	2007	2006	2006
	Consolidated	Scheme	Consolidated	Scheme
	\$	\$	\$	\$
Short term	54,832	54,832	23,944	23,944
Post employment	4,965	4,965	2,156	2,156
Other long term	-	-	-	-
Termination benefits	-	-	-	-
Equity based payment	-	-	-	-
Other	-	-	-	-
	<u>59,867</u>	<u>59,867</u>	<u>26,100</u>	<u>26,100</u>

**Loans to Specified KMP**

The Scheme has not made, guaranteed or secured, directly or indirectly any loans to the KMP or their related entities during the period.

**(c) Other Transactions and Balances with Specified KMP**

Other than those items disclosed in the related party note 11, the Scheme has no other transactions and balances with specified KMP.

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Scheme's principal financial instruments comprise units in managed investment schemes, investments in secured mortgages, net assets attributable to unitholders, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on the investment made by unitholders.

The Scheme also has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Scheme's financial instruments are interest rate risk, credit risk and liquidity risk. The Responsible Entity reviews and agrees policies for managing each of these risks, are summarised below.

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## LM FIRST MORTGAGE INCOME FUND

Notes to the financial statements for the year ended 30 June 2007

## a) Interest rate risk

*Interest rate risk exposures*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme and consolidated entity's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities, is set out below:

**CONSOLIDATED**

	Note	Weighted average interest rate		Floating Interest Rate		Fixed interest rate		Total	
		2007	2006	2007	2006	Securities contracted to mature in less than 1 year	Securities contracted to mature in more than 1 year but less than 5 years	2007	2006
Cash assets		%	%						
Secured mortgage loans (gross)	13(b)	5.57	5.52	28,593,772	32,995,697	-	-	28,593,772	32,995,697
Loan facility	9	9.55	10.65	-	-	400,256,059	183,714,839	835,530,336	868,300,393
	10	6.44	5.47	(90,416,662)	(30,416,662)	-	-	(90,416,662)	(30,416,662)
<b>Total</b>				(61,822,890)	2,579,035	400,256,059	183,714,839	773,707,446	870,879,428

All other financial assets and liabilities are non-interest bearing.

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## LM FIRST MORTGAGE INCOME FUND

Notes to the financial statements for the year ended 30 June 2007

## SCHEME

	Note	Weighted average interest rate		Floating Interest Rate		Fixed interest rate		Total	
		2007	2006	2007	2006	Securities contracted to mature in less than 1 year	Securities contracted to mature in more than 1 year but less than 5 years	2007	2006
Cash assets		%	%						
Secured mortgage loans (gross)	13(b)	5.57	5.54	28,332,244	32,645,002	-	-	28,332,244	32,645,002
Unsecured loan	9	9.89	10.14	-	-	400,256,059	183,714,839	835,530,336	868,300,393
Loan facility	10	6.5	6.5	-	-	-	6,000,000	6,000,000	6,000,000
	9	6.44	5.47	(90,416,662)	(30,416,662)	-	-	(90,416,662)	(30,416,662)
<b>Total</b>				(62,084,418)	2,228,340	400,256,059	189,714,839	779,445,918	876,528,733

All other financial assets and liabilities are non-interest bearing.

## LM FIRST MORTGAGE INCOME FUND

## Notes to the Financial Statements for the year ended 30 June 2007

## b) Credit risk exposure

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The total credit risk for recognised items including securities is therefore limited to the amount carried on the statement of financial position.

*Recognised financial instruments*

The Scheme minimises concentrations of credit risk by:

- undertaking credit assessment procedures on prospective borrowers;
- dealing with Australian regulated banks for cash balances;
- obtaining independent valuations for all loans; and
- maintaining an average loan to valuation ratios not exceeding 75% of the mortgage securities.

The percentage of loans secured by property in different geographical locations is as follows:

	2007	2006
Sydney CBD	0.00%	1.27 %
Within 40km of Sydney CBD	20.30%	25.98 %
New South Wales – Other	15.37%	14.70 %
Melbourne – CBD	0.00%	0.39 %
Within 40km of Melbourne CBD	8.82%	9.9 %
Victoria – Other	2.13%	4.17 %
Brisbane CBD	0.00%	0.00 %
Within 40km of Brisbane CBD	1.92%	18.50 %
Queensland – Other	34.58%	12.31 %
Canberra – Other	5.35%	4.30 %
Northern Territory	5.18%	1.58 %
South Australia	0.00%	6.71 %
Western Australia	5.63%	0.19 %
Tasmania	-	-
	100.00%	100.00 %

As at 30 June 2007 66.0% of the balance of mortgage loans is secured on construction/development property (2006: 60.5%) and 34.0% on commercial property (2006: 39.4%).

The Scheme's maximum credit risk exposure at balance date in relation to mortgage loan is the carrying value of these assets as indicated in the statement of financial position. No single mortgage investment exceeds 10% of the Scheme which ensures that there is no concentration of risk.

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the Financial Statements for the year ended 30 June 2007**

#### **c) Liquidity and cash flow risk**

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unit holder redemptions.

The Responsible Entity employs risk management strategies to ensure that the Scheme is able to meet its obligations as above. The liquidity risk associated with the need to satisfy unitholders requests for redemptions are mitigated by offering fixed term investment periods for investors and by maintaining sufficient cash funds to satisfy usual levels of demand for at-call investments.

In order to minimise liquidity risk, management assesses and monitors the liquidity requirements of both unitholder redemptions and investment activities and ensures that at all times the Scheme has adequate cash and cash equivalents to cover any unusual obligations and that liquidity is managed within the Scheme's policies and limits.

#### **d) Net fair values of financial assets and liabilities**

The Scheme's financial assets and liabilities included in the statement of financial position are carried at amounts that approximate net fair value

### **16. COMPOSITION OF CONSOLIDATED ENTITY**

On 22 December 2005, LM First Mortgage Income Fund acquired 100% ownership of LM MIF Investments Pty Ltd, an unlisted company based in Australia newly formed on 22 December 2005.

From the date of acquisition, LM MIF Investment Pty Ltd has contributed nil to the net profit of the consolidated entity.

### **17. SEGMENT INFORMATION**

#### **(a) Business segment**

The Scheme is organised into one main business segment which operates solely in the business of investment management within Australia. The Scheme operates from Australia (the geographical segment).

#### **(b) Geographic segments**

The Scheme operates in Australia and all directly held assets are Australian.

### **18. COMMITMENTS AND CONTINGENCIES**

There are no material contingent assets and liabilities or commitments as at 30 June 2007.

### **19. EVENTS AFTER THE BALANCE SHEET DATE**

No significant events have occurred since balance date which would impact on the financial position of the consolidated entity disclosed in the balance sheet as at 30 June 2007 or on the results and cash flows of the consolidated entity for the year ended on that date.

**LM FIRST MORTGAGE INCOME FUND**

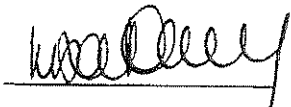
**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

- a) The financial statements and notes of the Registered Scheme set out on pages 5 to 31 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards and the Corporation Regulations 2001; and
  - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2007, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
- b) there are reasonable grounds to believe that the Scheme 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 provisions of the Scheme's Constitution.

On behalf of the Board

LM Investment Management Limited.



Lisa Darcy

Director

Gold Coast

24 September 2007



■ 1 Eagle Street  
Brisbane QLD 4000  
Australia

■ Tel 61 7 3011 3333  
Fax 61 7 3011 3100

PO Box 7878  
Waterfront Place  
Brisbane QLD 4001

## **Independent auditor's report to the unitholders of LM First Mortgage Income Fund**

We have audited the accompanying financial report of LM First Mortgage Income Fund, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the scheme and the entity 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 the responsible entity of the scheme are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the consolidated/parent financial statements and notes 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the scheme's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Independence*

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the responsible entity of the scheme a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

*Auditor's Opinion*

In our opinion:

1. the financial report of LM First Mortgage Income Fund is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of LM First Mortgage Income Fund and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the consolidated/parent financial statements and notes or financial report also comply with International Financial Reporting Standards as disclosed in Note 2.

*Ernst & Young*

Ernst & Young

*Paula McLuskie*

Paula McLuskie  
Partner  
Brisbane  
24 September 2007



PW-38

Australian Securities &  
Investments Commission

026048018

## Form 388

Corporations Act 2001  
294, 295, 298-300, 307, 308, 319, 321, 322  
Corporations Regulations  
1.0.08

## Copy of financial statements and reports

If there is insufficient space in any section of the form, you may photocopy the relevant page(s) and submit as part of this lodgement

## Company/scheme details

Company/scheme name

LM FIRST MORTGAGE INCOME FUND

ACN/ARBNIARSN/PIN/ABN

089 343 288

## Lodgement details

Who should ASIC contact if there is a query about this form?

Firm/organisation

LM INVESTMENT MANAGEMENT LTD

Contact name/position description

GRANT FISCHER (CFO)

ASIC registered agent number (if applicable)

N/A

Telephone number

(07) 55 844 500

Postal address or DX address

PO BOX 485

SURFERS PARADISE QLD 4217

## 1 Reason for lodgement of statement and reports

Tick appropriate box.

See Guide for definition of large and small  
proprietary companies.

- ☐ A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)
- ☐ A registered scheme (B)
- ☐ Amendment of financial statements or directors' report (company) (C)
- ☐ Amendment of financial statements or directors' report (registered scheme) (D)
- ☐ A large proprietary company that is not a disclosing entity (H)
- ☐ A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)
- ☒ A small proprietary company that is requested by ASIC to prepare and lodge statements and reports (J)
- ☐ A prescribed interest undertaking that is a disclosing entity (K)

Dates on which financial year begins  
and ends

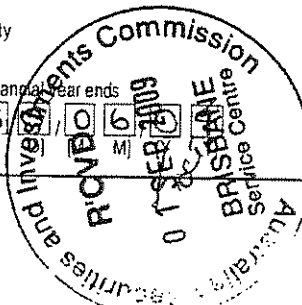
Financial year begins

01/07/08

to

Financial year ends

30/06/09



## 2 Details of large proprietary company

See Guide for definition of large and small proprietary companies.

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

A What is the consolidated revenue of the large proprietary company and the entities that it controls?

B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

C How many employees are employed by the large proprietary company and the entities that it controls?

D How many members does the large proprietary company have?

## 3 Auditor's report

Were the financial statements audited?

☒ Yes

☐ No

If no, is there a class order exemption current for audit relief?

☐ Yes

☐ No

If yes, does the auditor's report (s308) for the financial year contain a statement of:

Reasons for the auditor not being satisfied as to the matters referred to in s307?

☐ Yes

☒ No

Details of the deficiency, failure or shortcoming concerning any matter referred to in s307?

☐ Yes

☒ No

## 4 Details of current auditor or auditors

Registered schemes must advise ASIC of the appointment of an auditor on a Form 5137 *Appointment of scheme auditor* within 14 days of the appointment of the auditor.

Auditor registration number (for individual auditor or authorised audit company)

Family name

Given name

or

Company name

ERNST & YOUNG

ACN/ABN

752 881 727 49

or

Firm name (if applicable)

**4 Continued... Details of current auditor or auditors**

Office, unit, level	
<input type="text" value="WATERFRONT PLACE"/>	
Street number and Street name	
<input type="text" value="1 EAGLE STREET"/>	
Suburb/City	State/Territory
<input type="text" value="BRISBANE"/>	<input type="text" value="QLD"/>
Postcode	Country (if not Australia)
<input type="text" value="4000"/>	<input type="text"/>
Date of appointment	
<input type="text" value="01"/> <input type="text" value="10"/> <input type="text" value="03"/> <small>[D] [D] [M] [M] [Y] [Y]</small>	

A company may have two appointed auditors, provided that both auditors were appointed on the same date. Otherwise, an appointed auditor must resign, be removed or otherwise ceased before a subsequent appointment may be made.

Auditor registration number (for individual auditor or authorised audit company)

Family name

Given name

or

Company name

ACN/ABN

or

Firm name (if applicable)

Office, unit, level

Street number and Street name

Suburb/City

State/Territory

Postcode

Country (if not Australia)

**5 Statements and reports to be attached to this form**

Financial statements for the year (as per s295(2) and accounting standards)

*Income statement for the year**Balance sheet as at the end of the year**Statement of cash flows for the year**Statement of changes in equity or statement of recognised income and expense for the year**If required by accounting standards - the consolidated income statement, balance sheet, statement of cash flows and statement of changes in equity/statement of recognised income and expense*

Notes to financial statements (as per s295(3))

*Disclosures required by the regulations**Notes required by the accounting standards**Any other information necessary to give a true and fair view (see s297)*

The directors' declaration about the statements and notes (as per s295(4))

The directors' report for the year, including the auditor's independence declaration (as per s298 to s300A)

Auditor's report required under s308 and s314

Concise report (if any) (s314)

## Signature

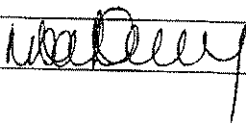
See Guide for details of signatory.

I certify that the attached documents marked ( ) are a true copy of the original reports required to be lodged under s319 of the Corporations Act 2001.

Name

LISA DARCY

Signature



Capacity

☒ Director

☐ Company secretary

Date signed

30/09/09

[D] [D] [M] [M] [Y] [Y]

## Lodgement

Send completed and signed forms to:  
Australian Securities and Investments Commission,  
PO Box 4000, Gippsland Mail Centre VIC 3841.

Or lodge the form electronically by visiting the ASIC website  
[www.asic.gov.au](http://www.asic.gov.au)

For help or more information

Telephone 1300 300 630

Email [info.enquiries@asic.gov.au](mailto:info.enquiries@asic.gov.au)

Web [www.asic.gov.au](http://www.asic.gov.au)

Annexure A

**LM FIRST MORTGAGE INCOME FUND**

**ABN: 66 482 247 488**

**Annual Report**

**For the year ended 30 June 2009**

## LM FIRST MORTGAGE INCOME FUND

ABN: 66 482 247 488

Annual Report – 30 June 2009

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The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Ltd (ABN 68 077 208 461).  
The Responsible Entity's registered office is Level 4, RSL Building, 9 Beach Road, Surfers Paradise QLD 4217.

## LM FIRST MORTGAGE INCOME FUND

### Directors' Report

#### DIRECTORS' REPORT

The directors of LM Investment Management Limited, the Responsible Entity of the LM First Mortgage Income Fund, present their report of the LM First Mortgage Income Fund ("the Scheme") for the year ended 30 June 2009. The directors' report is not part of the financial report.

#### DIRECTORS

The following persons held office as directors of LM Investment Management Limited, during the year or since the end of the year and up to the date of this report:

Name	Period of directorship
Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003
Mr John Dillon	Appointed 8 June 2005; resigned 28 August 2008
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Mulder	Appointed 30 September 2006
Mr John Vallander Llewellyn	Appointed 1 June 2007; resigned 1 July 2008
Mr John O'Sullivan	Appointed 27 November 2007
Mr Simon Tickner	Appointed 16 December 2008

#### PRINCIPAL ACTIVITIES

During the year, the Scheme continued the principal activity of investing unitholders' funds in registered first mortgages and cash investments in Australia, in accordance with the Scheme's Constitution and in accordance with the investment policy of the Scheme as outlined in the current product disclosure document.

The Scheme did not have any employees during the year.

#### SCHEME INFORMATION

The Scheme is an Australian registered scheme and was constituted in September 1999. The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited, who has been the Responsible Entity since registration of the Scheme.

The registered office and principal place of business of the Responsible Entity and the Scheme is Level 4, 9 Beach Road, Surfers Paradise, Queensland.

#### REVIEW OF RESULTS AND OPERATIONS

##### Results

During the year the Scheme continued to invest in registered first mortgage loans secured by property in Australia and cash assets.

The Scheme performed well during the year and delivered to investors rates of interest greater than cash and a stable unit price of \$1.00. The net profit attributable to unitholders for the year ended 30 June 2009 was \$39,577,872 (2008: \$49,797,814).

During 2009, the Scheme was and continues to be impacted by events surrounding the global credit crisis. Lack of liquidity in the finance sector first saw a general slowdown in repayment of loans from those borrowers who were relying on refinances from other institutions to repay their loans to the Scheme.

## LM FIRST MORTGAGE INCOME FUND

### Directors' Report

Secondly, the introduction of the Australian Government Guarantee on bank deposits in Australia and in other countries has also impacted the Scheme with an increase in withdrawal requests received from members following the implementation of the guarantee.

Thirdly, a reflection of the credit crisis resulted in the Schemes external financier requiring its loan facility to be repaid in priority to most investor redemptions.

The directors have negotiated an extension to the loan facility up until June 2010 and the directors believe the Scheme will be able to meet its obligations to the financier under the current repayment plan through repayment of existing loans.

These three events in combination with the continuation of unprecedented general market conditions and the lack of liquidity within the banking sectors investment capital has seen the Scheme suspend the payment of redemptions as per its constitution and in order to protect investor capital.

Total assets under management were \$630,789,449 as at 30 June 2009 (2008: \$634,110,877). Investor funds under management increased during the year by \$14,588,808 (2008: decreased by \$301,946,394). Investor funds under management invested by related managed investment schemes in LM FMIF increased by \$12,471,300 (2008: decreased by \$175,300,000) to \$231,221,300 (2008: \$218,750,000).

The performance of the Scheme, as represented by the results of its operations, was as follows:

	30 June 2009	30 June 2008
	\$	\$
Net operating income/(loss) before distributions	39,577,872	49,797,814
Financing costs: Distributions to unitholders	(39,271,910)	(51,289,597)
(Increase) / decrease in net assets attributable to unitholders	(305,962)	1,491,783
<b>Net profit/(loss)</b>	<b>-</b>	<b>-</b>

### UNITS ON ISSUE

There were 495,661,089 units on issue at 30 June 2009 (2008: 481,418,849). During the year 95,766,741 units were issued by the Scheme (2008: 157,043,148) and 81,524,501 were withdrawn (2008: 458,948,936).

### SCHEME ASSETS

At 30 June 2009, the Scheme held assets to a total value of \$630,789,449 (2008: \$634,110,877). The basis for valuation of assets is disclosed in Note 2 to the financial statements.

### FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATED COMPANIES

The following fees were paid to LM Investment Management Limited and its associated companies out of Scheme property during the financial year, for funds management and administrative services provided on behalf of the Responsible Entity:



## LM FIRST MORTGAGE INCOME FUND

### Directors' Report

	2009	2008
	\$	\$
• Management fees paid or payable directly to LM Administration Pty Ltd	10,310,762	5,801,477
• Management fees paid or payable directly to LM Investment Management Pty Ltd	5,100,000	-
• Expenses incurred by the Responsible Entity and its associated entities which are reimbursed in accordance with the provisions of the Scheme's Constitution, including administration and custodian fees	-	-
• Expenses incurred by LM Administration Pty Ltd which are reimbursed in accordance with the provisions of the Scheme's Constitution, including administration and custodian fees	960,259	826,743
• Loan origination fees received from borrowers within the Scheme that were reimbursed to the Responsible Entity for the administration of loan origination services	2,194,460	9,410,607

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

From 3 March 2009, the Scheme ceased accepting any applications for investments in the fund from any persons who were not an existing member in the Scheme. In the opinion of the directors, there were no other significant changes in the state of affairs of the Scheme that occurred during the financial year under review.

#### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than the matters disclosed in Note 20 of the financial report there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected or may affect the Scheme's operations in future financial years, the results of those operations of the Scheme's state of affairs in future years.

#### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Further information on likely developments in the operation of the Scheme and the expected results of those operations has not been included in this report because the Responsible Entity believes it would likely to result in unreasonable prejudice to the Scheme.

#### ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of the Scheme are not subject to any particular or significant environmental regulations under a law of the Commonwealth or a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

## **LM FIRST MORTGAGE INCOME FUND**

### **Directors' Report**

#### **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of LM Investment Management Ltd or the auditors of the Scheme. Provided the officers of LM Investment Management Ltd act in accordance with the Scheme Constitution and the Law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

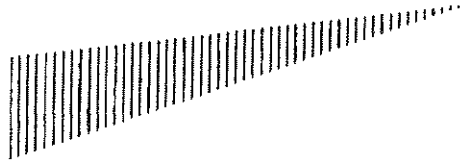
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the Directors of LM Investment Management Limited.



Lisa Darcy  
Director  
Gold Coast

30 September 2009



**ERNST & YOUNG**

1 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001  
Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
[www.ey.com/au](http://www.ey.com/au)

## **Auditor's Independence Declaration to the Directors of LM Investment Management Limited as Responsible Entity for LM First Mortgage Income Fund**

In relation to our audit of the financial report of LM First Mortgage Income Fund, for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

*Ernst & Young*

Ernst & Young

*P McLuskie*

Paula McLuskie  
Partner  
Brisbane  
30 September 2009

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**INCOME STATEMENT**  
**For the year ended 30 June 2009**

	Notes	30 June 2009 Scheme \$	30 June 2008 Consolidated \$	Scheme \$
<b>Income</b>				
Changes in the fair value of investments	3(a)	-	28,379	-
Interest revenue – loans and advances	3(b)	68,475,219	81,612,059	81,645,183
Interest revenue – cash assets	3(b)	238,603	1,504,559	1,501,881
Other income	3(a)	10,898,863	2,005,949	2,005,949
<b>Total revenue and other income</b>		<b>79,612,685</b>	<b>85,150,946</b>	<b>85,153,013</b>
<b>Expenses</b>				
Management fees	12	15,410,762	5,801,477	5,801,477
Custodian fees		123,356	157,876	157,876
Advisor commissions		2,167,826	2,640,504	2,640,504
Impairment losses on loans and receivables	9(d)	5,056,938	6,154,911	6,157,884
Finance costs	4(a)	14,082,356	10,380,397	10,380,397
Legal fees		69,789	36,949	36,949
Foreign exchange losses		91,131	-	-
Other expenses	4	3,032,655	10,181,018	10,180,112
<b>Total expenses excluding distributions to unitholders</b>		<b>40,034,813</b>	<b>35,353,132</b>	<b>35,355,199</b>
<b>Net profit attributable to unitholders</b>		<b>39,577,872</b>	<b>49,797,814</b>	<b>49,797,814</b>
Distributions to unitholders	3(c)/7	(39,271,910)	(51,289,597)	(51,289,597)
<b>Changes in net assets attributable to unitholders</b>		<b>305,962</b>	<b>(1,491,783)</b>	<b>(1,491,783)</b>
Income tax expense		-	-	-
<b>Changes in net assets attributable to unitholders after income tax expense</b>		<b>305,962</b>	<b>(1,491,783)</b>	<b>(1,491,783)</b>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**BALANCE SHEET**

**As at 30 June 2009**

		30 June 2009	30 June 2008	
		Scheme	Consolidated	Scheme
		\$	\$	\$
	Notes			
<b>ASSETS</b>				
Cash and cash equivalents	14	1,154,822	14,643,332	14,643,332
Receivables	13	17,318,697	4,797,790	4,797,789
Prepayments	12	6,269,970	7,845,017	7,845,017
Investments	8	1	-	1
Loans and receivables	9	606,045,959	606,824,738	606,824,738
<b>TOTAL ASSETS</b>		<u>630,789,449</u>	<u>634,110,877</u>	<u>634,110,877</u>
<b>LIABILITIES</b>				
Payables	10	1,051,369	878,796	878,796
Interest bearing loans and borrowings	11	133,000,000	150,000,000	150,000,000
Distributions payable	3(c)	2,234,098	3,305,015	3,305,015
Fair value of forward exchange contracts		28,714	40,606	40,606
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u>136,314,181</u>	<u>154,224,417</u>	<u>154,224,417</u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	6	<u>494,475,268</u>	<u>479,886,460</u>	<u>479,886,460</u>

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 30 June 2009**

Net assets of the Scheme that are attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year. A *Statement of Changes in Net Assets Attributable to Unitholders* is disclosed in Note 6.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**CASH FLOW STATEMENT**  
**For the year ended 30 June 2009**

	Notes	30 June 2009 Scheme \$	30 June 2008 Consolidated \$	30 June 2008 Scheme \$
<b>Cash flows from operating activities</b>				
Interest and distributions received		14,989,628	22,918,375	22,827,388
Management fees paid		(14,693,802)	(9,724,881)	(9,724,881)
Other operating expenses		(3,247,801)	(17,970,388)	(17,990,996)
Other income received		17,833	4,231,876	4,229,198
GST and withholding tax (paid)/received		291,402	729,911	729,911
Finance costs paid		(13,869,073)	(10,169,709)	(10,169,709)
<b>Net cash inflow/(outflow) from operating activities</b>	14(b)	(16,511,813)	(9,984,816)	(10,099,089)
<b>Cash flows from investing activities</b>				
Payments for secured mortgage loans		(117,016,006)	(320,147,455)	(320,117,304)
Receipts from settled mortgage loans		163,133,558	611,498,185	611,843,835
<b>Net cash inflow/(outflow) from investing activities</b>		46,117,552	291,350,730	291,726,531
<b>Cash flows from financing activities</b>				
Proceeds from / (repayments) of borrowings		(17,000,000)	59,533,338	59,533,338
Receipts from the issue of units		88,028,697	145,782,718	145,782,718
Distributions paid		(32,598,445)	(41,683,474)	(41,683,474)
Payment for redemption of units		(81,524,501)	(458,948,936)	(458,948,936)
<b>Net cash inflow/(outflow) from financing activities</b>		(43,094,249)	(295,316,354)	(295,316,354)
<b>Net increase/(decrease) in cash and cash equivalents</b>		(13,488,510)	(13,950,440)	(13,688,912)
<b>Cash and cash equivalents at beginning of the year</b>		14,643,332	28,593,772	28,332,244
<b>Cash and cash equivalents at the end of the year</b>	14(a)	1,154,822	14,643,332	14,643,332

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

**1. CORPORATE INFORMATION**

The financial report of LM First Mortgage Income Fund ("the Scheme") for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 30 September 2009.

The Scheme is an Australian registered Scheme, constituted on 13 April 1999. The Scheme will terminate on 13 April 2080 unless terminated earlier in accordance with the provision of the Scheme Constitution (as amended).

LM Investment Management Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 4, 9 Beach Road, Surfers Paradise, Queensland.

The nature of the operations and principal activities of the Scheme are described in the Directors' report.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

**a) Basis of accounting**

This financial report is a general purpose financial report that has been prepared in accordance with the Scheme Constitution, and the requirements of the *Corporations Act 2001*, which includes applicable Accounting Standards.

The financial statements have been prepared under the historical cost convention, except for the valuation of investments in financial assets, which have been measured at fair value or amortised cost.

The balance sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items, in accordance with AASB 101 – *Presentation of Financial Statements*.

**Going Concern**

The financial statements have been prepared on the basis the Scheme is a going concern. During the financial year the Responsible Entity was able to negotiate an extension to its external financing facilities until 31 July 2009, with a requirement for the full balance to be repaid in instalments, in priority to any redemptions over this period. The Scheme was unable to make the required repayments constituted a breach of its covenants and therefore the Scheme was in default under the facility as at 30 June 2009.

As detailed in Note 11, since the 30 June 2009 the Responsible Entity negotiated extended terms for the \$150 million facility that had matured. This facility agreement provides a revised facility of \$128 million, being the balance of the loan as at 4 September 2009, with a requirement for repayments to be made quarterly with the full principal balance to be repaid by or on 30 June 2010, in priority to any



## LM FIRST MORTGAGE INCOME FUND

### Notes to the Financial Statements 30 June 2009

redemptions, except for hardship provisions and feeder fund payments for investor distributions and fund expenses.

The facility agreement requires the Scheme to repay 60% of all net proceeds to the external financier, being the cash received from the realisation of assets with minimum cumulative quarterly repayment amount as detailed below:

	Minimum quarterly repayment	Reduced commitment and principal outstanding
30 November 2009	15,000,000	113,000,000
28 February 2010	15,000,000	98,000,000
31 May 2010	15,000,000	83,000,000

As at the date of this report, the Scheme is in compliance with all loan covenants in the facility agreement and has repaid the first \$2.7 million required in the period to 30 November 2009.

There remains some uncertainty in the financial and property markets that may impact the timing of future cash flows. The directors believe the Scheme will be able to meet its remaining obligations under the repayment plan through repayment of existing loans including the refinancing of existing loans with alternative financing providers; the repayment of loans from related entities; the repayment of the prepaid management fee from LM Administration Pty Ltd; or the continued support from the external financier or the securing of alternate sources of finance.

On this basis the directors believe the Scheme is a going concern and hence the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Scheme not continue as a going concern.

#### b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009 are shown in the following tables. None of the standards issued or amended have an impact on the accounting policies adopted by the Scheme.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

Reference	Title	Summary	Application date of standard*	Impact on Scheme financial report	Application date for Scheme*
AASB 8 and AASB 2007-3	Operating Segments + consequential amendments to other standards	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Scheme's financial statements. The amendments may have an impact on the Scheme's segment disclosures.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs + consequential amendments to other standards	Removes expensing option so all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements + consequential amendments to other standards	Introduces a statement of comprehensive income. Changes to the titles of the financial statements. Requires a "third" or opening comparative balance sheet in some circumstances	1 January 2009	These amendments are only expected to affect the presentation of the Scheme's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Scheme has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	<p>The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs.</p> <p>Includes over 20 amendments. Some changes affect measurement of transactions, and others are just editorial.</p> <p>Relates to annual improvements process 2008 (most of 2007 ED)</p>	1 January 2009	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

Reference	Title	Summary	Application date of standard*	Impact on Scheme financial report	Application date for Scheme*
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Refer to AASB 2008-5 above.  These amendments commence at a later date than the standard above	1 July 2009	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (Amendments to AASB 7)	Various changes. Includes fair values disclosed on a tiered basis. Also changes to contractual maturity analysis disclosures.	1 January 2009 (not mandatory if short financial year that starts on or after 1 January 2009 but ends before 30 April 2009)	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Continues the Annual Improvements Process / Project.  With AASB 2009-5 includes approx. 15 amendments.  Relates to annual improvements process 2009 (2008 ED and some from 2007 ED)	1 July 2009	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Continues the Annual Improvements Process / Project.  With AASB 2009-4 includes approx. 15 amendments.  Relates to annual improvements process 2009 (2008 ED and some from 2007 ED)	1 Jan 2010	The Scheme has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

\*designates the beginning of the applicable annual reporting period unless otherwise stated

## LM FIRST MORTGAGE INCOME FUND

### Notes to the Financial Statements 30 June 2009

The following standards have been amended, however they do not affect the Scheme:

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations
- AASB 3 (Revised) and AASB 2008-3: Business Combinations + consequential amendments to other standards
- AASB 127 (Revised) And AASB 2008-3: Consolidated and Separate Financial Statements
- AASB 2008-11: Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3]
- AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- AASB 2009-6: Amendments to Australian Accounting Standards - Editorial amendments
- AASB 2009-7: Amendments to Australian Accounting Standards - Editorial amendments
- AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions (amendments to AASB 2)
- AASB Int. 12 and AASB 2007-2: Service Concession Arrangements + consequential amendments to other standards
- AASB Int. 13: Customer Loyalty Programmes
- AASB Int. 14: AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- AASB Int. 15: Agreements for the Construction of Real Estate
- AASB Int. 18: Transfers of Assets from Customers
- AASB Int. 17 and AASB 2008-13: Distributions of Non-cash Assets to Owners + consequential amendments to other standards
- AASB 2007-9: Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31
- AASB 1004 (revised): Contributions
- AASB Int. 1038 (Revised): Contributions by Owners Made to Wholly-Owned Public Sector Entities
- AASB 1049: Whole of Government and General Government Sector Financial Reporting
- AASB 1050: Administered Items
- AASB 1051: Land Under Roads
- AASB 1052: Disaggregated Disclosures
- AASB 2009-1: Borrowing Costs of Not-for-Profit Public Sector Entities
- AASB 2008-9: Amendments to AASB 1049 for Consistency with AASB 101
- AASB 2008-10 and AASB 2008-12: Amendments to Australian Accounting Standards – Reclassification of Financial Assets
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items (also referred to as hedging portions of risk)
- AASB Int. 16: Hedged risk is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.
- AASB 2009-3: Amendments to Australian Accounting Standards – Embedded Derivatives (Amendments to AASB 139 and Interpretation 9)

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the Financial Statements 30 June 2009**

#### **c) Basis of consolidation**

This financial report of June 2008 comprises the financial report of LM First Mortgage Income Fund and its subsidiary as at that time ("the consolidated entity"). The financial report of the subsidiary is prepared for the same reporting period as the Scheme, using consistent accounting policies.

In preparing the consolidated financial statements all intercompany balances and income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

The scheme owns 100% of the issued share capital of \$1 of LM MIF Investments Pty Ltd at 30 June 2009. This company is in the process of being wound up and has not traded during the period. On this basis consolidated financial statements were not prepared for the year ended 30 June 2009.

#### **d) Significant accounting judgements, estimates and assumptions**

##### **(i) Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

##### **(ii) Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### *Allowance for impairment loss on loans and receivables*

The Scheme determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of future cash flows. The Scheme's policy for calculation of impairment losses is disclosed in Note 2(h)(ii).

#### **e) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **f) Revenue and income recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**i) Dividend and distribution income**

Dividend or distribution income is recognised when the shareholders' or unitholders' right to receive the payment is established.

**ii) Interest income**

Interest income is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

**iii) Default management fees**

Income from default management fees is recognised in line with the executed agreement with the borrower when an event of default occurs.

**iv) Changes in the fair value of investments**

Gains or losses on investments held for trading are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

**g) Finance costs**

Interest on borrowings is recognised in the income statement in the period to which it relates. Issue costs associated with borrowings are capitalised and amortised over the term of the borrowing to which they relate using the effective interest method.

**h) Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The consolidated entity determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Scheme commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

**i) Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the Financial Statements 30 June 2009**

#### **ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value including transaction costs directly attributable to the financial asset. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for doubtful debts when there is objective evidence that the consolidated entity will not be able to collect the receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as an expense in the income statement.

The amount provided for impairment of loans is determined by management of the Scheme and the Credit Committee. A provision is made of loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The components of impaired assets are as follows:

“Loans in arrears” are loans and advances for which there is reasonable doubt that the Scheme will be able to collect all amounts of principal and interest in accordance with the terms of the agreement.

“Assets acquired through the enforcement of security” are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

“Restructured loans” arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and new terms are not comparable to the revised terms. These loans are removed from ‘restructure loans’ after a period of 12 months of performance against loan revised terms and conditions. Loans with revised terms are included in ‘loans in arrears’ when impairment provisions are required.

When the Responsible Entity determines interest is not recoverable on certain impaired loans, the interest is suspended and not brought into income. Should the Responsible Entity’s analysis of the collectability subsequently change the interest will be brought into income at the time it is determined to be collectible.

#### **i) Advisor Commissions**

Advisor commissions may be paid to the unitholders’ investment advisors and are calculated as a percentage of funds invested in the Scheme. These commissions are paid monthly in arrears and are brought to account on an accrual basis. The Scheme ceases to pay advisor commissions when the related units are redeemed.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**j) Payables**

Payables are carried at amortised cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchases of these goods and services.

Trades are recorded on trade date, and normally settled within three business days. Purchases of securities and investments that are unsettled at reporting date are included in payables.

The distribution amount payable to investors as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at 30 June 2009 under the Scheme's Constitution.

Foreign currency received from investors for investment into the Scheme is classified as a payable until it is subject to hedging by the Scheme entering into forward exchange contracts, at which time the foreign currency is invested into the Scheme and units issued.

**k) Increase/decrease in net assets attributable to unitholders**

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax. Excess and undistributed income is also transferred directly to net assets attributable to unitholders.

**l) Distributions**

In accordance with the Scheme's Constitution, the Scheme fully distributes its distributable income to unitholders. Distributions are payable monthly. Such distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

**m) Goods and services tax (GST)**

The GST incurred on the costs of various services provided to the Responsible Entity by third parties such as audit fees, custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Hence investment management fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivable in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.



**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

The GST component of cash flows arising from investing and financing activities recoverable or payable to the ATO is classified as an operating cash flow.

**n) Applications and redemptions**

Applications received for units in the Scheme are recorded when units are issued in the Scheme. Redemptions from the Scheme are recorded when the cancellation of units redeemed occurs. Unit redemption prices are determined by reference of the net assets of the Scheme divided by the number of units on issue.

**o) Taxation**

Under current legislation, the Scheme is not subject to income tax provided the distributable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

The price of a unit is based upon market values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax. Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

**p) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

**3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS**

**a) Non-Interest income**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
Changes in the fair value of investments	-	28,379	-
Other income:			
Default management fees	10,751,114	1,724,208	1,724,208
Foreign exchange gains	26,553	-	-
Other income	121,196	281,741	281,741
	10,898,863	2,005,949	2,005,949

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**b) Interest income**

	2009 Scheme		
	Average balance \$	Income \$	Average rate %
Cash assets	5,026,247	238,603	4.75
Loans and advances	610,693,516	68,475,219	11.21
	<u>615,719,763</u>	<u>68,713,822</u>	

	Consolidated		Average rate %	2008 Scheme		
	Average balance \$	Income \$		Average balance \$	Income \$	Average rate %
Cash assets	25,331,798	1,504,559	5.94	25,302,766	1,501,881	5.94
Loans and advances	722,514,861	81,612,059	11.30	722,514,861	81,645,183	11.30
	<u>747,846,659</u>	<u>83,116,618</u>	11.11	<u>747,817,627</u>	<u>83,147,064</u>	11.11

**c) Distributions to unitholders**

	30 June 2009	30 June 2008	
	Scheme \$	Consolidated \$	Scheme \$
Distributions paid	37,037,812	47,984,582	47,984,582
Distributions payable	2,234,098	3,305,015	3,305,015
	<u>39,271,910</u>	<u>51,289,597</u>	<u>51,289,597</u>

**4. EXPENSES**

	30 June 2009	30 June 2008	
	Scheme \$	Consolidated \$	Scheme \$
<b>a) Finance costs</b>			
Interest on bank loans	12,218,376	10,021,448	10,021,448
Facility fees	1,863,982	358,949	358,949
	<u>14,082,356</u>	<u>10,380,397</u>	<u>10,380,097</u>
<b>b) Other expenses</b>			
Loan origination expenses	2,194,460	9,410,607	9,410,607
Auditor's remuneration	478,744	236,001	236,001
Product disclosure statement production costs	22,591	62,972	62,972
Other expenses	336,860	470,438	470,532
	<u>3,032,655</u>	<u>10,180,018</u>	<u>10,180,112</u>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**5. AUDITOR'S REMUNERATION**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
Audit and review of the financial reports	461,757	219,235	219,235
Other regulatory audit services	16,987	16,766	16,766
	478,744	236,001	236,001

These expenses have been included within 'Other Expenses' in the Income Statement.

**6. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

All units in the Scheme are attributed with a value of \$1. The units on issue in the Scheme and the consolidated entity are equal. Movements in number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2009		30 June 2008	
	Scheme		Scheme	
	#	\$	#	\$
<b>Net assets attributable to unitholders</b>				
<b>Class A</b>				
Opening balance	257,995,772	257,995,772	389,274,637	389,274,637
Units issued during the year	5,022,455	5,022,455	47,186,284	47,186,284
Units redeemed during the year	(16,932,807)	(16,932,807)	(189,724,646)	(189,724,646)
Units issued upon reinvestment of distributions	7,193,991	7,193,991	11,259,497	11,259,497
<b>Closing Balance</b>	253,279,411	253,279,411	257,995,772	257,995,772
<b>Class B</b>				
Opening balance	218,750,000	218,750,000	394,050,000	394,050,000
Units issued during the year	75,347,798	75,347,798	93,870,624	93,870,624
Units redeemed during the year	(62,877,663)	(62,877,663)	(269,170,624)	(269,170,624)
Units issued upon reinvestment of distributions	1,165	1,165	-	-
<b>Closing Balance</b>	231,221,300	231,221,300	218,750,000	218,750,000

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

	<b>30 June 2009 Scheme</b>		<b>30 June 2008 Scheme</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Class C</b>				
Opening balance	4,673,077	4,632,471	-	-
Units issued during the year	7,658,444	7,658,444	4,725,809	4,725,809
Units redeemed during the year	(1,714,031)	(1,714,031)	(53,666)	(53,666)
Units issued upon reinvestment of distributions	542,888	542,888	934	934
Change in fair value of derivatives	-	40,606	-	(40,606)
<b>Closing Balance</b>	<b>11,160,378</b>	<b>11,160,378</b>	<b>4,673,077</b>	<b>4,632,471</b>

	<b>30 June 2009 Scheme</b>		<b>30 June 2008 Scheme</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>TOTAL</b>				
Opening balance	481,418,849	479,886,460	783,324,637	783,324,637
Units issued during the year	88,028,697	88,028,697	145,782,717	145,782,717
Units redeemed during the year	(81,524,501)	(81,524,501)	(458,948,936)	(458,948,936)
Units issued on reinvestment of distributions	7,738,044	7,738,044	11,260,431	11,260,431
Transfers to and from the income statement	-	305,962	-	(1,491,783)
Change in fair value of derivatives	-	40,606	-	(40,606)
<b>Closing Balance</b>	<b>495,661,089</b>	<b>494,475,268</b>	<b>481,418,849</b>	<b>479,886,460</b>

Class A consists of unit holders who are entitled to receive the declared distribution rate. There are a number of subclasses attached to class A.

Class B consists of related scheme unit holders. The distribution rate will be determined by the Funds Committee which is appointed by the Responsible Entity. The Responsible Entity has the discretion to waive the whole or part of the 1% trailing commission and the whole or part of its management fee for this class of unit holders.

Class C consist of unit holders who have invested in foreign currencies and are entitled to receive the declared distribution rate. There are a number of subclasses attached to class C.

All unitholders are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at unitholders' meetings. In the event of winding up of the Scheme, all unitholders rank after creditors and are equally entitled to the proceeds of liquidation.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**Status of investment in fund**

On 3 March 2009, the Scheme was closed to new investors and the manager will pay withdrawal requests up to 365 days after maturity. From 11 May 2009, the scheme was closed to investors and the manager suspended redemptions except for hardship provisions and feeder funds payments for investor distributions and fund expenses.

At 30 June 2009, \$112,591,711 of redemptions had been requested by unitholders but not yet paid. Of the total requested redemptions \$5,984,668 related to requests occurring within thirty days of year end. \$106,607,043 had been requested more than 30 days prior to year end. Redemptions also rank behind repayment of external financing facilities as detailed in Note 2(a).

**7. DISTRIBUTIONS TO UNITHOLDERS**

	30 June 2009	30 June 2008
Distributions paid and payable	\$	\$
Class A	16,473,735	24,431,419
Class B	22,159,255	26,825,153
Class C	638,920	33,025
	<u>39,271,910</u>	<u>51,289,597</u>

**8. INVESTMENTS**

	2009	2008	2008
	Scheme	Consolidated	Scheme
	\$	\$	\$
Investment in subsidiary	1	-	1
	<u>1</u>	<u>-</u>	<u>1</u>

The scheme owns 100% of the issued share capital of \$1 of LM MIF Investments Pty Ltd at 30 June 2009. This company is in the process of being wound up and has not traded during the period. On this basis consolidated financial statements were not prepared for the year ended 30 June 2009.

**9. LOANS AND RECEIVABLES**

	30 June 2009	30 June 2008	30 June 2008
	Scheme	Consolidated	Scheme
	\$	\$	\$
Secured mortgage loans	603,612,957	604,441,259	604,441,259
Other unsecured loans – related party	5,100,000	5,100,000	5,100,000
Provision for impairment	(2,667,000)	(2,716,521)	(2,716,521)
Net loans and advances	<u>606,045,959</u>	<u>606,824,738</u>	<u>606,824,738</u>
<b>a) Aggregate amounts receivable from related parties</b>			
Directors and director-related entities - secured	7,669,590	7,780,093	7,780,093
Related managed investment schemes - secured	35,465,182	1,760,566	1,760,566
Related managed investment schemes - unsecured	5,100,000	5,100,000	5,100,000
Other related entities	-	-	-
Provision for impairment	-	-	-
	<u>48,234,772</u>	<u>14,640,659</u>	<u>14,640,659</u>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**9. LOANS AND RECEIVABLES**  
**(Continued)**

	<b>30 June 2009</b>	<b>30 June 2008</b>	
	<b>Scheme</b>	<b>Consolidated</b>	<b>Scheme</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>b) Maturity analysis – Secured Mortgage Loans</b>			
Less than 3 months	408,431,216	207,820,725	207,820,725
3-6 months	59,866,162	97,953,294	97,953,294
6-12 months	37,901,770	143,723,462	143,723,462
12-18 months	96,289,380	101,817,897	101,817,897
18-24 months	1,124,429	24,482,446	24,482,446
24-36 months	-	28,643,435	28,643,435
	<u>603,612,957</u>	<u>604,441,259</u>	<u>604,441,259</u>

**c) Concentration of risk**

As at 30 June 2009 no individual loan was greater than 10% of net assets attributable to unit holders.  
(2008: nil)

For concentration of risks relating to mortgage type and geographical location refer to Note 16.

**d) Provisions for impairment**

The impairment loss expense relating to loans and receivables comprises:

Specific provision	1,540,000	3,278,509	3,278,509
Collective impairment provision	-	-	-
Impairment losses realised directly in the Income Statement	<u>3,516,938</u>	<u>2,876,402</u>	<u>2,879,375</u>
	<u>5,056,938</u>	<u>6,154,911</u>	<u>6,157,884</u>

	<b>30 June 2009</b>	<b>30 June 2008</b>	
	<b>Scheme</b>	<b>Consolidated</b>	<b>Scheme</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Specific Provision</i>			
Opening balance	2,716,521	1,025,255	1,025,225
Impairment losses provided for during year	1,540,000	3,278,509	3,278,509
Utilisation of provisions (loans realised)	(1,589,521)	(1,587,243)	(1,587,243)
Closing balance	<u>2,667,000</u>	<u>2,716,521</u>	<u>2,716,521</u>
<i>Collective impairment provision</i>			
Opening balance	-	-	-
Impairment losses provided for during year	-	-	-
Closing balance	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL PROVISION</b>	<u>2,667,000</u>	<u>2,716,521</u>	<u>2,716,521</u>

The collective provision for impairment is calculated by placing loans into pools with similar risk characteristics and collectively assessing for impairment.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
<b><i>Movement in Default loans</i></b>			
Gross default loans opening balance	101,159,653	83,826,384	83,826,384
New and increased default loans	268,567,327	59,907,804	59,907,804
Balances written off	(15,307)	(754,152)	(754,152)
Returned to performing or repaid	(38,237,959)	(41,820,383)	(41,820,383)
Gross default loans closing balance	331,473,714	101,159,653	101,159,653
Specific provision	(2,667,000)	(2,716,521)	(2,716,521)
<b>Net default loans</b>	<b>328,806,714</b>	<b>98,443,132</b>	<b>98,443,132</b>

At 30 June 2009, the balance of loans that were past due but not impaired was \$304,553,260 (2008: \$63,789,822). As per the Scheme's policy, loans are impaired once they exceed 90 days overdue.

At 30 June 2009, \$26,920,454 of loans were individually impaired, with a total impairment loss of \$2,667,000.

Loans are secured by land, development property or completed construction property. The fair value of security over loans that are past due but not impaired at 30 June 2009 was \$389,017,914 (2008: \$73,192,466).

As at 30 June 2009 the Scheme was mortgage in possession of security relating to loans in default of \$331.5million (2008: \$46.4million) and had taken possession of assets offered as collateral security valued at \$415.4million (2008: \$59.8million).

Interest on arrears loans is suspended and not brought to account if the Responsible Entity considered that the amounts are not ultimately recoverable from the sale proceeds of the property. The amount of suspended interest at 30 June 2009 totalled \$6,532,157 (2008: \$3,078,983).

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

10. PAYABLES	30 June 2009	30 June 2008	
	Scheme \$	Consolidated \$	Scheme \$
Foreign currency awaiting investment	2,242	445,982	445,982
Other payables	1,049,127	432,814	432,814
	<u>1,051,369</u>	<u>878,796</u>	<u>878,796</u>

**11. INTEREST BEARING LOANS AND BORROWINGS**

	30 June 2009	30 June 2008	
	Scheme \$	Consolidated \$	Scheme \$
Secured bank loan	<u>133,000,000</u>	<u>150,000,000</u>	<u>150,000,000</u>

On 4 September 2009, the Directors of the Responsible Entity of the Scheme, LM Investment Management Limited, and the Scheme's external financier negotiated extended terms for the \$150 million facility that had matured. This facility agreement provides a revised facility of \$128 million, being the balance of the loan at that date, with a requirement for repayments to be made quarterly with the full principal balance to be repaid by or on 30 June 2010, in priority to any redemptions.

The facility agreement requires the Scheme to repay 60% of all net proceeds to the external financier, being the cash received from the realisation of assets with minimum cumulative quarterly repayment amount as detailed in Note 2.

The interest rate payable on the facility is BBSY + 4.50% per annum. In the event that the repayment is not made in accordance with the repayment plan mentioned above, the interest rate payable is increased to BBSY + 6.50%.

As at the date of this report, the Scheme is in compliance with all loan covenants in the facility agreement and has repaid the first \$2.7 million required in the period to 30 November 2009.

**12. RELATED PARTIES**

***Responsible Entity***

The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited (ABN 68 077 208 461). Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Ltd, an associate of the Responsible Entity. LM Administration Pty Ltd is paid a management fee directly from the Scheme.

On 1 February 2009 the Scheme's arrangement in relation to management fees was amended. The basis of the management fee calculation remains unchanged however the revised agreement provides that LM Investment Management Limited is required to be paid up to \$1 million per month for administration and



## LM FIRST MORTGAGE INCOME FUND

### Notes to the Financial Statements 30 June 2009

fund management services, with any monthly management fee in excess of \$1 million to be paid to LM Administration Pty Ltd for administration services provided on behalf of LM Investment Management Limited.

#### *Custodian*

The Custodian of the Scheme is LM Investment Management Limited.

#### *Directors*

The names of each person holding the position of director of LM Investment Management Limited during the financial year are disclosed in Note 15.

#### *Directors' remuneration*

No amounts are paid by the Scheme directly to the directors of the Responsible Entity. The amount of remuneration paid by the Responsible Entity and its related parties to directors of the Responsible Entity in connection with their responsibilities for the Scheme is separately identified in Note 15.

#### *Directors' holdings of units*

The interests of LM Investment Management Limited and its associates in the Scheme at year-end are set out below.

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
- LM Investment Management Limited	-	-	-
- Directors and director related entities	-	-	-
- Other Associates of LM Investment Management Limited	231,221,300	218,750,000	218,750,000

#### *Investing activities*

The Scheme may purchase and sell units in other approved schemes or investment entities operated by LM Investment Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those schemes. At 30 June 2009 the Scheme had no investments in other schemes operated by LM Investment Management Limited or its affiliates (2008: nil).

#### *Other transactions with the Scheme*

From time to time the directors of LM Investment Management Limited, or their director-related entities, may invest or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors. Apart from the details disclosed in this note, no director has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Ltd, an associate of the Responsible Entity. LM Administration Pty Ltd is paid a management fee for these services directly from Scheme assets. On 1 February 2009 the Scheme's arrangement in relation to management fees was amended. The basis of the management fee calculation remains unchanged however the revised agreement provides that LM Investment

## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the Financial Statements 30 June 2009**

Management Limited is required to be paid up to \$1 million per month for administration and fund management services, with any monthly management fee in excess of \$1 million to be paid to LM Administration Pty Ltd for administration services provided on behalf of LM Investment Management Limited.

During the year, management fees of \$15,410,762 (2008: \$5,801,477) were paid or payable by the Scheme. Of these fees \$5,100,000 (2008: \$Nil) was paid or payable to LM Investment Management Limited and \$10,310,762 (2008: \$5,801,477) was paid or payable to LM Administration Pty Ltd.

During the year, loan origination fees received from borrowers within the Scheme were \$4,366,378 (2008: \$10,098,488) of which \$2,194,460 was reimbursed by the Scheme to the Responsible Entity for the administration of loan origination services (2008: \$9,410,607).

On 28 August 2008, it was resolved by the Board of Directors of the Responsible Entity, to transfer three mortgage loans to the value of \$33,513,345 and the related first mortgage security to the LM Managed Performance Fund (LM MPF). There is a fixed charge over these three specific secured properties plus a floating charge over the remaining assets of LM MPF to provide security to the Scheme in the event of default by the LM MPF. This loan between the Scheme and LM MPF is interest bearing at 10%, with the interest being capitalised and was due to be repaid to the Scheme on 30 June 2009. Subsequent to the year end, the Board of Directors of the Responsible Entity has agreed to extend the repayment term of the loan to 28 August 2010, no other changes were made to the terms of this facility. Since the year end, LM MPF has sold one of the properties and has repaid \$3.6 million to the Scheme.

The Scheme has advanced funds to a related scheme, the LM Managed Performance Fund, to finance a joint venture entered into with a borrower of the Scheme. At 30 June 2009, the balance of the loan to the related Scheme was \$9,563,238 (2008: \$7,008,047), which is secured by first mortgage of the assets of the unrelated borrower and by a guarantee from the LM Managed Performance Fund. This loan has been subject to the normal credit approval review procedures of the Scheme.

The LM MPF has second mortgages on loans that are first mortgages of the LM First Mortgage Income Fund totalling \$46,905,578 (2008: \$31,024,921). The LM MPF may on occasion pay development and construction costs on those related loans. As part of the normal role as second mortgagee, the related scheme will fund interest payments from time to time within approved loan facility limits. During the 30 June 2009 year, interest payments totalling \$1,903,971 (2008: \$3,955,100) were paid from the related scheme on behalf of the borrowers.

At 30 June 2008, management assigned a \$5,100,000 receivable within the Scheme from LM Investment Management Limited to LM MPF. The loan will accrue interest at 10% per annum and is for a period of 12 months, expiring on 30 June 2009 and is unsecured. Since 30 June 2009, the Board of Directors of the Responsible Entity has agreed to extend the repayment term of this receivable to 30 June 2010.

During the year the Scheme paid a loan origination fee to LM Investment Management Limited, the Scheme's responsible entity of \$375,000. LM Investment Management Limited assigned this receivable to LM Administration Pty Limited, a related party. The directors of the Responsible Entity agreed to extinguish the liability of the Scheme in relation to this expense by reducing prepaid management fees payable to the Scheme by LM Administration Pty Limited.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
<b><i>Responsible Entity remuneration received or due and receivable</i></b>			
• Management fees for the year paid or payable directly to LM Administration Pty Ltd	10,310,762	5,801,477	5,801,477
• Management fees for the year paid or payable to LM Investment Management Limited	5,100,000	-	-
• Expenses including administration expenses incurred by the Responsible Entity and its associated entities, which are reimbursed in accordance with the provisions of the Constitution.	-	-	-
• Expenses including administration expenses incurred by LM Administration Pty Ltd, which are reimbursed in accordance with the provisions of the Constitution.	960,259	826,743	826,743
• Loan origination fees received by borrowers within the Scheme that were reimbursed to the Responsible Entity for the administration of loan origination services	2,194,460	9,410,607	3,381,487
<b><i>Custodian's remuneration</i></b>			
• Custodian's fees paid by the Scheme	123,356	157,876	157,876
<b><i>Balance with related parties</i></b>			
Aggregate amounts receivable from related parties by the Scheme were as follows:			
• LM Administration Pty Ltd (management fees prepaid by the Scheme)(i)	6,000,000	6,716,960	6,716,960
• Australian International Investments Pty Limited (ii)	7,669,589	7,780,093	7,780,093
• LM Managed Performance Fund (iii)	41,745,359	5,100,000	5,100,000
• LM Currency Protected Australian Income Fund (iv)	100,000	-	-
i). These amounts are included in prepayments of \$6,269,970 at 30 June 2009. No amounts are payable to related parties by the Scheme. The average monthly balance of prepayments during the year was \$7,973,684 (2008: \$6,632,631) which was non-interest bearing. Interest foregone on the above amount if calculated at the weighted average cash rate of 4.75% (2008: 5.94%) would have been \$378,750 (2008: \$393,978). If this revenue had been collected, the sum foregone would have been paid to LM Administration Pty Ltd as management fees during the year.			

This prepaid management fee will be recovered through LM Administration Pty Ltd's Agreement to offset future payable management fees.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

- ii). Peter Charles Drake is a director and guarantor of Australian International Investment Services Pty Ltd which is a joint borrower in a secured loan facility outstanding to the Scheme as at 30 June 2009 for \$7,669,589 (2008: \$7,780,093). This transaction was approved on an arms length basis and is on normal terms and conditions.
- iii). This amount relates to the assignment of debt of \$5,100,000 from LM Administration Pty Ltd to LM MPF which was originally a prepayment of management fees from the Scheme to LM Administration Pty Ltd. Plus the loans and receivable and associated interest receivable balance at 30 June 2009 of \$36,645,359.
- iv). This amount relates to payments for margin calls on behalf of LM Currency Protected Australian Income Fund. This transaction was paid on normal terms and at arms length.

***Unitholder investing activities***

Details of holdings in the Scheme by LM Investment Management Limited, its affiliates including directors and director related persons or other schemes managed by LM Investment Management Limited are set out below:

Entity	Investment at year end \$	Interest held in the scheme at year end	Units issued during the year	Units redeemed during the year	Distributions paid and payable
<b>30 June 2009</b>					
LM Currency Protected Australian Income Fund	126,675,000	25.56%	38,774,376	31,399,376	12,847,979
LM Institutional Currency Protected Australian Income Fund	10,069,000	2.03%	7,545,535	4,976,535	1,051,556
LM Managed Performance Fund	-	-	16,450,507	16,900,507	123,644
LM Wholesale First Mortgage Income Fund	94,477,300	19.06%	12,023,535	9,046,235	8,132,510
LM Australian Income Fund	-	0%	555,000	555,000	3,565
Dhani Darcy	-	0%	216	216	19
Harold Ward	-	-	-	-	-
<b>Total</b>	<b>231,221,300</b>	<b>46.65%</b>	<b>75,349,169</b>	<b>62,877,869</b>	<b>22,159,273</b>
Entity	Investment at year end \$	Interest held in the Scheme at year end	Units issued during the year	Units redeemed during the year	Distributions paid and payable
<b>30 June 2008</b>					
LM Currency Protected Australian Income Fund	119,300,000	24.78%	43,500,000	85,700,000	14,041,838
LM Institutional Currency Protected Australian Income Fund	7,500,000	1.56%	14,150,000	35,400,000	2,023,890
LM Managed Performance Fund	450,000	0.09%	29,420,624	33,770,624	395,977
LM Wholesale First Mortgage Income Fund	91,500,000	19.01%	6,800,000	114,300,000	10,362,449
<b>Total</b>	<b>218,750,000</b>	<b>45.44%</b>	<b>93,870,875</b>	<b>269,190,892</b>	<b>26,824,405</b>

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

**13. RECEIVABLES**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
Interest and distribution receivable	-	54,641	54,641
Mortgage interest receivable	1,599,427	1,727,883	1,727,883
Mortgage interest receivable – related party	3,132,014	-	-
Penalty interest receivable	192,525	51,531	51,531
Default management fees receivable	11,995,827	2,702,333	2,702,333
GST receivable	163,315	84,908	84,908
Other	235,590	176,494	176,493
	<u>17,318,698</u>	<u>4,797,790</u>	<u>4,797,789</u>

**14. CASH AND CASH EQUIVALENTS**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
<b>a) Reconciliation of cash and cash equivalents</b>			
For the purposes of the Balance Sheet and Cash Flow Statement, cash and cash equivalents comprise:			
- Cash at bank and in hand	<u>1,154,822</u>	<u>14,643,332</u>	<u>14,643,332</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.  
The fair value of cash and cash equivalents is \$1,154,822 (2008: \$14,643,332).

As at 30 June 2009 \$580,941 (2008: \$293,000) of cash at bank was held in foreign exchange margin accounts and therefore was not available for use by the Scheme.

**b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities**

	30 June 2009	30 June 2008	
	Scheme	Consolidated	Scheme
	\$	\$	\$
Change in net assets attributable to unitholders	305,962	(1,491,783)	(1,491,783)
<i>Adjustments for:</i>			
Non cash impairment expense	5,056,938	6,154,911	6,157,884
Non cash interest income	(50,395,681)	(59,070,947)	(59,104,073)
Distributions to unitholders	39,271,910	51,289,597	51,289,597
(Increase)/decrease in interest receivable	(3,257,517)	2,481,469	2,418,863
(Increase)/decrease in other receivables	(8,654,940)	(9,745,107)	(9,745,107)
Increase/(decrease) in payables	1,161,515	397,044	375,530
Net cash flows from/(used in) operating activities	<u>16,511,813</u>	<u>(9,984,816)</u>	<u>(10,099,089)</u>

## LM FIRST MORTGAGE INCOME FUND

### Notes to the Financial Statements 30 June 2009

**c) Reinvestment of distributions**

During the financial year, the Scheme issued 7,738,044 units (2008: 11,260,431) as a result of reinvestment of distribution by unitholders totaling \$7,783,044 (2008: \$11,260,431). These transactions have not been included in the Cash Flow Statement.

## 15. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Details of Key Management Personnel

#### (i) Key Management Personnel

The Key Management Personnel ("KMP") of the Scheme were deemed to be the Directors of the Responsible Entity. The Directors of the Responsible Entity during the year were:

#### *Executive directors*

Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006
Mr Simon Tickner	Appointed 16 December 2008

#### *Non-executive directors*

Mr John Dillon	Appointed 8 June 2005; resigned 28 August 2008
Mr John Vallander Llewellyn	Appointed 1 June 2007; resigned 1 July 2008
Mr John O'Sullivan	Appointed 28 November 2007

### (b) Compensation of Key Management Personnel

#### (i) Compensation Policies and Principles

Remuneration of KMP is paid by LM Administration Pty Ltd, appointed by LM Investment Management Ltd as per its service agreement with that entity. The KMP do not receive any remuneration directly from the Scheme and there are no agreements in place between the KMP and the Scheme. The remuneration of KMP as disclosed below has been allocated based on the each KMP's cost of remuneration applicable to the Scheme. The principles used to allocate these costs (for disclosure purposes only) are discussed below.

#### (ii) Executive Directors

The Executive Directors of the Board of the Directors of LM Investment Management Ltd are responsible for determining and reviewing compensation arrangements for the KMP of the Responsible Entity. The Executive directors assess the appropriateness of the nature and amount of emoluments of the KMP on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Responsible Entity.

It is the Executive Directors' policy that employment agreements shall only be entered into with the Executive Directors of the Responsible Entity, but with no other parties.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

*(iii) Non- executive directors*

Fees paid to non-executive directors are based on decisions made by the Executive Directors. This takes into account workload requirements and responsibilities of each Director. Fees for duties as Directors are not paid to executive Directors as their remuneration is provided as part of their normal terms and conditions.

*(iv) Principles of KMP Remuneration Allocations*

For all schemes managed by the Responsible Entity, the cost of total KMP remuneration has been allocated to each scheme. The Responsible Entity has estimated the amount of time spent by each KMP performing responsibilities and duties to individual schemes, and on a percentage basis, has allocated the remuneration cost to each scheme. Where a KMP has not spent time specifically on a scheme, but rather has acted in a role as KMP of the Responsible Entity only, remuneration cost has been allocated evenly across all schemes.

**LM FIRST MORTGAGE INCOME FUND**  
**Notes to the Financial Statements 30 June 2009**

(v) *Remuneration of KMP*

2009 Specified KMP	Salary & Fees \$	Primary		Post Employment			Equity	Other	TOTAL	Total performance related %
		Cash Bonus \$	Non Monetary Benefits \$	Super	Retirement Benefits \$	Equity \$				
Drake, PC*	-	-	-	-	-	-	-	-	-	-
Darcy, LM**	25,727	2,642	-	2,066	-	-	-	-	30,435	-
Van der Hoven, E**	18,828	1,996	-	1,649	-	-	-	-	22,473	-
Mulder, F**	16,096	1,996	-	1,644	-	-	-	-	19,736	-
Tickner, S	13,875	1,346	-	1,321	-	-	-	-	16,542	-
O'Sullivan, J	3,846	-	-	-	-	-	-	-	3,846	-
	<b>78,372</b>	<b>7,980</b>	-	<b>6,680</b>	-	-	-	-	<b>93,032</b>	-

2008 Specified KMP	Salary & Fees \$	Primary		Post Employment			Equity	Other	TOTAL	Total performance related %
		Cash Bonus \$	Non Monetary Benefits \$	Super	Retirement Benefits \$	Equity \$				
Drake, PC*	-	-	-	-	-	-	-	-	-	-
Darcy, LM**	47,762	-	-	4,299	-	-	-	-	52,061	-
Van der Hoven, E**	33,865	-	-	3,048	-	-	-	-	36,913	-
Mulder, F**	32,142	-	-	2,893	-	-	-	-	35,035	-
Dillon, J	3,448	-	-	310	-	-	-	-	3,758	-
Llewellyn, V	3,448	-	-	310	-	-	-	-	3,758	-
O'Sullivan, J	2,058	-	-	185	-	-	-	-	2,243	-
	<b>122,723</b>	-	-	<b>11,045</b>	-	-	-	-	<b>133,768</b>	-

\* Peter Charles Drake is the beneficial owner of 100% of the ordinary shares of the Responsible Entity. No salary and wages are paid to Peter Drake directly from the company or any of the schemes. \*\* As executives of the Responsible Entity, LM Darcy, E van der Hoven and F Mulder are entitled to a termination benefit that is payable on cessation of employment or a significant change in ownership of the company. No amount has been reflected in the above disclosures in relation to this potential future benefit.



**Compensation by category: Key Management Personnel**

	2009 Scheme	2008 Consolidated	2008 Scheme
	\$	\$	\$
Short term	86,352	122,723	122,723
Post employment	6,680	11,045	11,045
Other long term	-	-	-
Termination benefits	-	-	-
Equity based payment	-	-	-
Other	-	-	-
	<u>93,032</u>	<u>133,768</u>	<u>133,768</u>

**Loans to Specified KMP**

The Scheme has not made, guaranteed or secured, directly or indirectly any loans to the KMP or their related entities during the period.

**(c) Other Transactions and Balances with Specified KMP**

Other than those items disclosed in the related party Note 12, the Scheme has no other transactions and balances with specified KMP.

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES****a) Financial Risk Management Objectives, Policies, and Processes**

Risks arising from holding financial instruments are inherent in the Scheme's activities, and are managed through a process of ongoing identification, measurement, and monitoring. The scheme is exposed to credit risk, liquidity risk, and market risk.

Financial instruments of the Scheme comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Scheme from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Scheme, as well as the level of risk that the Scheme is willing to accept.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management, Risk and Investment Committees, and ultimately the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme uses foreign exchange contracts to manage exposures resulting from changes in foreign currencies.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, and other conditions.

In order to avoid excessive concentrations of risk, the Scheme monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces the exposure or uses derivative instruments and collateral to manage the excessive concentrations when they arise.

#### **b) Credit Risk**

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Balance Sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Scheme minimizes credit risk by:

- undertaking credit assessment procedures on prospective borrowers
- dealing with Australian regulated banks for cash balances;
- obtaining independent valuations for all loans; and
- maintaining an average loan to valuation ratio not exceeding 75% of the mortgage securities.

At year end, 72% of the balance of mortgage loans is secured on construction/development property (2008: 76%) and 28% on commercial property (2008: 24%).

***Risk concentrations of credit risk***

Concentrations of credit risk are managed by counterparty and by geographical region. The percentage of loans secured by property in different geographical locations is as follows:

	2009	2008
Sydney CBD	0.00%	0.00%
Within 40km of Sydney CBD	9.64%	11.03%
New South Wales – Other	22.33%	21.29%
Melbourne – CBD	0.00%	0.00%
Within 40km of Melbourne CBD	6.33%	7.22%
Victoria – Other	0.71%	2.34%
Brisbane CBD	0.00%	0.00%
Within 40km of Brisbane CBD	0.00%	2.11%
Queensland – Other	52.09%	39.80%
Canberra – Other	1.35%	1.29%
Northern Territory	0.00%	5.47%
Western Australia	7.02%	9.00%
Tasmania	0.53%	0.45%
	100.00%	100.00%

The maximum credit risk exposure at year end in relation to mortgage loan is the carrying value of the assets as indicated in the balance sheet. No single mortgage investment exceeds 10% of the Scheme which ensure that there is no concentration of risk.

The scheme has a concentration of credit risk relating to the derivative instruments as all foreign currency swaps are entered into with the same counterparty.

***Credit quality of mortgage loans***

The credit quality of financial assets is managed by the Scheme using internal risk rating categories in accordance with the investment mandate of the Scheme. The scheme's exposure in each category is monitored on a daily basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action.

As at 30 June 2009 the Scheme was mortgage in possession of security relating to loans in default of \$331.5million (2008: \$46.4million) and had taken possession of assets offered as collateral security valued at \$415.4million (2008: \$59.8million).

**c) Liquidity risk**

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unit holder redemptions.

The nature of the investments entered into by the Scheme commands that liquidity be managed cautiously and aligned to the redemptions policy outlined within the constitution of the scheme. At 30 June 2009, the redemptions requested from unitholders was \$112,591,711 (2008: \$15,309,573).

On 3 March 2009, the Scheme was closed to new investors and the manager will pay withdrawal requests up to 365 days after maturity. From 11 May 2009, the Scheme was closed to investors and

the manager suspended redemptions except for hardship provisions and feeder funds payments for investor distributions and fund expenses. At 22 September 2009, \$124,072,370 of redemptions has been requested by unitholders but not yet paid. Redemptions rank behind repayment of external financing facilities as detailed in Note 2(a).

The Responsible Entity employs risk management strategies to ensure that the Scheme is able to meet its obligations as above. The liquidity risk associated with the need to satisfy unitholders requests for redemptions are mitigated by offering fixed term investment periods for investors and by maintaining sufficient cash funds to satisfy usual levels of demand for at-call investments.

In order to minimise liquidity risk, management assesses and monitors the liquidity requirements of both unitholder redemptions and investment activities and ensures that at all times the Scheme has adequate cash and cash equivalents to cover fund obligations and that liquidity is managed within the Scheme's policies and limits.

#### *Maturity Analysis of Financial Liabilities*

Financial liabilities of the Scheme comprise trade and other payables, distributions payable, net assets attributable to unitholders, fair value of foreign exchange contracts and the secured bank loan. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days. Foreign exchange contracts mature within 12 months of year end.

Net assets attributable to unit holders mature over the following periods:

Period from 30 June 2009	Value
Due and payable*	\$112,591,711
< 12 months	\$344,402,653
12-24 months	\$34,732,482
24-36 months	\$2,404,864
36-48 months	\$343,558
>48 months	-
Total	\$494,475,268

\* This balance represents redemptions requested but not paid at 30 June 2009 of \$112,591,711.

The secured bank loan (Note 11) is repayable by 30 June 2010, as detailed in Note 2(a). When drawn, the loan is secured by the assets of the Scheme.

#### **d) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis.

The Scheme's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities is set out below:

**SCHEME**

Note	Weighted average interest rate	Floating Interest Rate		Fixed interest rate			Total
		2009	2008	Securities contracted to mature in less than 1 year	Securities contracted to mature in more than 1 year but less than 5 years	2009	
Cash and cash equivalents	13(b)	4.75	5.94	-	-	1,154,822	14,643,332
Secured mortgage loans (gross)	9	9.52	11.30	449,497,482	154,943,777	603,612,957	604,441,259
Unsecured loan	10	10.0	10.0	5,100,000	-	5,100,000	5,100,000
Loan facility	9	8.36	11.11	(133,000,000)	-	(133,000,000)	(150,000,000)
<b>Total</b>				<b>(131,845,178)</b>	<b>(135,356,668)</b>	<b>511,299,148</b>	<b>474,184,591</b>

All other financial assets and liabilities are non-interest bearing.

## LM FIRST MORTGAGE INCOME FUND

### Notes to the Financial Statements for the year ended 30 June 2009

The following table demonstrates the sensitivity of the Scheme's income statement to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the interest income for one year, based on the financial instruments held at 30 June 2009.

#### *Accounting assumptions*

The basis points sensitivity is based on the historical volatility of changes in interest rates.

2009

	Change in basis points		Sensitivity of interest income (\$000's)	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
Financial instruments	50	50	3,124	3,124
	100	100	6,247	6,247

2008

	Change in basis points		Sensitivity of interest income (\$000's)	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
Financial Instruments	50	50	3,869	3,869
	100	100	7,738	7,738

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Scheme enters into foreign exchange contracts principally to hedge the foreign exchange risk implicit in the value of the investor funds denominated in foreign currencies and to secure a particular exchange rate for a planned purchase or sale of investments. The term of the contracts rarely exceeds twelve months.

The fair value of forward exchange contracts held at 30 June 2009 was (\$6,370) (2008: \$40,606).

The nominal Australian dollar value of forward exchange contracts held at 30 June 2009 was \$11,253,138 (2008: \$4,817,423).

The table below indicates the currencies to which the Scheme had significant exposure at 30 June 2009 on its monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian Dollar on the income statements, with all other variables held constant.

#### *Foreign currency*

Investments in the fund are hedged in the relevant currency against Australian dollar currency movements. The fund manages foreign currency risk through the use of forward foreign exchange contracts (FFEC).

The FFECs are facilitated by several banking firms. This reduces currency exposure to the fund and investors. The above table is only applicable if the FFEC facilitator is unable to meet its obligation and the fund therefore seeks an alternative party to transact the FFEC.

# LM FIRST MORTGAGE INCOME FUND

## Notes to the Financial Statements for the year ended 30 June 2009

### Accounting Assumptions- Variability of foreign currency

The sensitivity is based on the volatility of changes in global currency.

	2009				
Currency	AUD equivalent in exposure by currency (000's)	Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
EUR	1,716	10	10	172	172
GBP	2,725	10	10	273	273
NZD	4,523	10	10	452	452
TRY	301	10	10	30	30
USD	1,556	10	10	156	156
HKD	182	10	10	18	18
SGD	217	10	10	22	22
THB	33	10	10	3	3

	2008				
Currency	AUD equivalent in exposure by currency (000's)	Change in currency rate in %		Effect on net assets attributable to unitholders to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
CAD	106	10	10	11	11
EUR	85	10	10	9	9
GBP	1,507	10	10	151	151
JPY	155	10	10	16	16
NZD	2,179	10	10	218	218
TRY	130	10	10	13	13
USD	656	10	10	66	66

### Equity Risk

The Scheme is not subject to equity risk at 30 June 2009.



## **LM FIRST MORTGAGE INCOME FUND**

### **Notes to the Financial Statements for the year ended 30 June 2009**

#### **17. FAIR VALUES**

The Scheme's financial assets and liabilities included in the Balance Sheet are carried at their fair value as disclosed by class of financial instruments or at amounts that approximate their fair values.

Refer to Note 2 for the methods and assumptions adopted in determining fair values for investments.

#### **18. SEGMENT INFORMATION**

##### **(a) Business segment**

The Scheme is organised into one business segment which operates solely in the business of investment management within Australia.

##### **(b) Geographic segments**

The Scheme operates in Australia and all directly held assets are Australian. Geographic concentrations disclosed in Note 16(b).

#### **19. COMMITMENTS AND CONTINGENCIES**

There are no material contingent assets and liabilities or commitments as at 30 June 2009.

#### **20. EVENTS AFTER THE BALANCE SHEET DATE**

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2009 or on the results and cash flows of the Scheme for the year ended on that date, other than those detailed below:

##### **(a) Renegotiation of the Loan Facility**

On 4 September 2009, the Directors of the Responsible Entity, LM Investment Management Limited, of the Scheme and the Scheme's external financier negotiated extended terms for the \$150 million facility which matured on 31 July 2009. This revised facility for \$128 million expires on 30 June 2010. A condition of the revised facility is full repayment of the facility by 30 June 2010 in line with the agreed repayment plan, as disclosed in Note 2(a).

The interest rate payable on the extended facility is BBSY + 4.50% per annum. In the event that the repayment is not made in accordance with the repayment plan mentioned above, the interest rate payable is increased to BBSY + 6.50%.

## LM FIRST MORTGAGE INCOME FUND

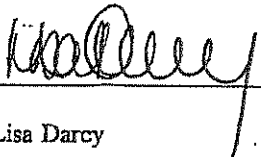
### DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

- a) The financial statements and notes of the Registered Scheme set out on pages 8 to 45 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards and the Corporation Regulations 2001; and
  - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2009, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
- b) there are reasonable grounds to believe that the Scheme 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 provisions of the Scheme's Constitution.

On behalf of the Board

LM Investment Management Limited.



Lisa Darcy

Director

Gold Coast

30 September 2009



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## **Independent auditor's report to the unitholders of LM First Mortgage Income Fund**

### **Report on the Financial Report**

We have audited the accompanying financial report of LM First Mortgage Income Fund ('the Scheme'), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### ***Directors' Responsibility for the Financial Report***

The directors of the responsible entity of the Scheme are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### ***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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



### **Auditor's Opinion**

In our opinion:

1. the financial report of LM First Mortgage Income Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of LM First Mortgage Income Fund at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board, as disclosed in Note 2.

*Ernst & Young*

Ernst & Young

*P M Luskie*

Paula McLuskie  
Partner  
Brisbane  
30 September 2009