

AUSTRALIAN ENHANCED INCOME FUND
Appendix 4E
Preliminary financial report under ASX listing rule 4.3A
for the Year ended 30 June 2016

Results for announcement to the market
All comparisons to the year ended 30 June 2015

Revenue & Profit	Change from previous period	Year to 30 June 2016	Year to 30 June 2015
Revenue from ordinary activities	6%	\$827,881	\$784,120
Net (loss)/profit from ordinary activities after tax attributable to members	294%	\$340,904	(\$175,343)
Net (loss)/profit for period attributable to unit holders	294%	\$340,904	(\$175,343)

Distributions	Year to 30/6/2016
September quarter distribution	10.0 cents
December quarter distribution	10.0 cents
March quarter distribution	10.0 cents
June quarter distribution	8.75 cents

June quarter distribution details	Year to 30/6/2016
Record date for distribution	30/06/2016
Payment date for distribution	15/07/16
Estimated franking	34%
Price of units issued under DRP	\$5.72

Distributions for the Year ending 30 June 2016 were paid in accordance with the announcement of 7 August 2013 and 23 May 2016 which reduced the distribution level to \$0.35 per annum.

The Distribution Reinvestment Plan (DRP) was in operation for the Final Distribution of 8.75 cents per unit. Participating unitholders were entitled to be allotted the number of units (rounded to the nearest whole number) which the cash distribution would purchase at the relevant issue price. Unitholders wishing to participate in the DRP must have informed Registries Ltd of their intention to do so by 30 June 2016 (the record date). Units issued as part of the DRP were issued at \$5.72

	Year to 30/6/2016	Year to 30/6/2015
Net Asset Value	\$5.82	\$6.528
Closing Unit Price (on market)	\$5.72	\$6.36

The remainder of the information requiring disclosure to comply with the ASX Listing Rule 4.3A is contained in the attached 2016 Annual Financial Report, which has been released to the ASX today.

This preliminary financial report under ASX listing rule 4.3A is based on the attached audited financial report.

**AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990**

**ANNUAL REPORT
FOR YEAR
ENDED 30 JUNE 2016**

**RESPONSIBLE ENTITY
ELSTREE INVESTMENT MANAGEMENT LTD
LEVEL 10,30 COLLINS ST
MELBOURNE, VIC, 3000**

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990

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AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

Overview

The Australian Enhanced Income Fund (“the Fund”) is a listed, managed investment scheme. The units of which are listed on the Australian Securities Exchange (ASX).

The ASX Corporate Governance Council provides the guidelines for good corporate governance. The directors of the Responsible Entity (RE), Elstree Investment Management Limited, understand and recognise the importance of good corporate governance.

The RE has appointed Elstree Investment Management Limited as the manager of the Fund.

This Corporate Governance Statement is designed to ensure the effective management and operation of the Fund. It will be reviewed periodically.

A description of the RE’s adopted practices in respect of the Corporate Governance Principles and Recommendations as determined by the ASX Corporate Governance Council are set out below. These practices were in operation throughout the period denoted above and are current as at the date of this report.

Recommendation 1 - Lay solid foundations for management and oversight

The RE, as outlined in the Fund’s Constitution, is responsible for the overall operation, strategic direction and maintaining the integrity of the Fund. This involves undertaking the following functions:

1. Providing a platform for the implementation of the Fund's strategic direction.
2. Reviewing the risk management function to ensure that where significant risks facing the management of the Fund are identified, there is appropriate control, monitoring and reporting mechanisms are in place so that that risk is appropriately dealt with.
3. Ensuring the RE board discharges its responsibilities appropriately by having regard to the Corporations Law, the Fund's Constitution, the ASX Listing Rules and best governance practise.
4. Reviewing and overseeing internal and regulatory compliance.
5. Ensuring compliance with the Fund’s Constitution and with the continuous disclosure requirements of the ASX Listing rules and the Corporations Act 2001.
6. Communicating with and protecting the rights and interest of all unit holders.

AUSTRALIAN ENHANCED INCOME FUND
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CORPORATE GOVERNANCE STATEMENT

Recommendation 2 - Structure the board to add value

Board independence: There are no independent directors of the RE board.

Committees: As a legal requirement of the Fund's Constitution, the RE has approved and appointed a Risk Management and Compliance Committee with a majority of independent members. Details of the Risk Management and Compliance Committee can be found below under recommendation 4.

There are no other committees as the board considers them not relevant to the functioning of the Fund.

Performance Evaluation: The board of the RE reviews the performance of the board of directors of the RE. This is through discussion and communication with the Chairman of the board as determined by widely accepted board performance standards. During the period, the board of the RE conducted an evaluation of its performance by discussion with the Chairman.

Recommendation 3 - Promote ethical and responsible decision making

While the RE does not have a formal code of conduct the RE is cognisant of maintaining the integrity of the Fund. In maintaining the integrity of the Fund the RE has established a trading policy for both units in the Fund and for other securities for board members of the RE.

Unit and Securities Trading Policy: The board of the RE established a trading policy regarding trading on the ASX of the Fund's units and securities in which the Fund is invested in or considering being invested in by board members of the RE. This policy details:

- A transaction window for transacting in units directly in the Fund and the requirement to obtain documented pre-transaction approval from the Chairman of the board of the RE. In the Chairman's absence another director must give approval;
- A moratorium in dealing directly in the Fund's units during this transaction window while in possession of price sensitive information; and
- Dealings in securities in which the Fund is transacting or may be considering transacting in. A director of the RE must seek pre-transaction documented approval from the Chairman of the board of the RE or in the Chairman's absence another director before transacting in any security that the Fund is transacting in or is considering transacting in.

A copy of the RE's Trading Policy will be made available upon request.

Gender diversity: The Board recognises the ASX Recommendations in respect of gender diversity of board members. However, due to the small size and lack of independence of the board, the board considers it is not practical or relevant to its operations at the present time.

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CORPORATE GOVERNANCE STATEMENT

Recommendation 4 - Safeguard integrity in financial reporting

As a registered managed investment scheme, the RE has a compliance plan that has been lodged with Australian Securities and Investments Commission (ASIC). The compliance plan is reviewed to ensure that the way in which the RE operates, protects the rights and interests of unit holders and that compliance risks are identified and properly managed.

As a legal requirement of the Fund's Constitution the RE has formed a Risk Management and Compliance Committee to ensure the Fund complies with the Corporations Law and the Fund's Constitution. Risk Management and Compliance Committee reports are conducted quarterly and presented and reviewed by the board of the RE.

The Risk Management and Compliance Committee is made up of three members, the majority of whom are independent. The Risk Management and Compliance Committee members are; Campbell Dawson (Internal member), Richard Oakes (Independent Member) and Els Termaat (Independent Member).

Audit committee: The RE, having considered the overall scope and responsibility of the Risk Management and Compliance Committee, does not consider it necessary to establish an audit committee. The Compliance Committee addresses the integrity of corporate reporting as part of its function.

Recommendation 5 - Make timely and balanced disclosure

The RE operates the Fund under the continuous disclosure obligations of the Corporations Act 2001 and ASX Listing Rules. The RE ensures that relevant information is released to the market and to unit holders in a timely and appropriate manner so that the market and unit holders have an equal opportunity to assess relevant and material information concerning the Fund.

The Secretary of the RE is responsible for ensuring that information is released to the market and unit holders in a timely manner.

The RE does not have a formal written procedure regarding reporting but is governed by the Corporations Law, the Fund's Constitution and the continuous reporting requirements of the ASX Listing Rules. The Secretary reports to the board of the RE on this process.

AUSTRALIAN ENHANCED INCOME FUND
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CORPORATE GOVERNANCE STATEMENT

Recommendation 6 - Respect the rights of unit holders

The RE promotes effective communication with unit holders. Unit holders are informed of all major developments affecting the Fund's performance and activities.

Information is communicated to unit holders and to the market at large through announcements to the ASX and through dispatch of financial reports by post or by electronic means. The RE's website is also used to facilitate communication with unit holders.

Communications include:

- Monthly fund performance commentary and monthly net asset value (NAV) reporting,
- Half year or interim report,
- Annual report,
- Periodical announcements to the ASX made in compliance with the Fund's continuous disclosure requirements; and
- Periodical correspondence sent by post or electronic means to unit holders on matters of significance to the Fund.

Unit holders are encouraged to access such announcements and releases from the ASX website and the RE's website. The RE encourages full participation of unit holders at the Fund's Annual General Meeting to ensure a high level of accountability and communication.

Recommendation 7 - Recognise and manage risk

The board has accepted the role of identification, assessment, monitoring and management of significant areas of risk applicable to the Fund and the Fund's operations.

As a requirement of a managed investment scheme, the board of the RE approved and appointed a Risk Management and Compliance Committee with a majority of external members to ensure the Fund complies with the Corporations Act 2001 and the Fund's Constitution.

Recommendation 8 - Remunerate fairly and responsibly

There is no remuneration committee.

In accordance with the Fund's Constitution, the RE as manager of the Fund is entitled to a management fee for the provision of management services to the Fund. Details of the management fees charged by the manager are disclosed in the notes to financial statements within the Annual Report.

Directors of the RE do not receive director's fees as directors of the RE. Directors of the RE are remunerated as executives of the management company for Fund's management services provided in the management of the Fund's assets.

The Fund's Constitution is available on the RE's website.

AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2016

DIRECTORS' REPORT

The directors of Elstree Investment Management Limited, the responsible entity for the Australian Enhanced Income Fund ("the Fund") present their report together with the financial report of the Australian Enhanced Income Fund for the year ended 30 June 2016.

The financial statements and notes are in accordance with the Corporations Act 2001 and comply with Accounting Standards and Regulations.

PRINCIPAL ACTIVITIES

The Fund invests in listed and unlisted debt hybrid securities and cash investments in accordance with the Fund Constitution and the Fund Product Disclosure Statement.

There were no significant changes in the nature of the Fund's activities during the period.

The Fund has not gained or lost control of any entities over the reporting period.

The Fund has no associates and is not involved in joint venture entities.

RESPONSIBLE ENTITY

The responsible entity and ultimate controlling party of the Australian Enhanced Income Fund is Elstree Investment Management Limited.

The Directors in office at any time during or since the end of the year and up to the date of this report are:

	Campbell E Dawson	Norman St. G Derham	John P Abbott
Qualifications	Bachelor of Commerce Graduate Diploma of Applied Finance Chartered Financial Analyst	Bachelor of Economics	Bachelor of Commerce
Experience	34 years experience in funds management and banking	36 years experience in financial markets	27 years experience in fixed interest funds management
Special responsibilities	Nil	Nil	Nil
Directors' meetings attended	12	12	12

AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2016

REVIEW OF OPERATIONS

During the period, the Fund managed the investments in accordance with the Product Disclosure Statement (the "PDS") and the Constitution.

The Fund produced a small positive return this year with capital losses offsetting income. This was a consequence of margins on hybrid securities increasing due to concerns about global recession and defaults. This was exacerbated by a relatively large supply pipeline in the first half of the year. The sector and fund performed well in the second half of the year as margins contracted

The performance of the Fund was as follows;

	Year ended 30 June 2016	Year ended 30 June 2015
	\$	\$
Net operating profit/(loss)	340,904	(175,343)
Distributions paid and payable	1,178,178	1,031,036
Distributions (cents per unit)	38.75	40.0

FINANCIAL POSITION

Net Asset Value per unit as disclosed to the ASX

	Year ended 30 June 2016	Year ended 30 June 2015
	\$	\$
As at end of the year	5.820	6.21
High during the year	6.195	6.587
Low during the year	5.759	6.21

Unit movements and issue

	Year ended 30 June 2016	Year ended 30 June 2015
Units on issue at start of year	2,898,519	2,249,528
Units issued	342,193	651,986
Units redeemed	(16,888)	(2,995)
Units on issue at end of year	<u>3,223,824</u>	<u>2,898,519</u>

The value of net assets and liabilities and details of the unit movements are disclosed in the financial statements.

AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters or circumstances that have arisen since 30 June 2016 that have significantly affected, or may significantly affect;

- the operations of the Fund in future financial years;
- the result of those operations in future financial years; or
- the state of affairs of the Fund in future financial years

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The results of the Fund and its operations will be affected by a number of factors including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns if investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

INDEMNIFICATION AND INSURANCE OF OFFICERS

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Elstree Investment Management Limited or the auditors of the Fund. Provided the officers of Elstree Investment Management Limited act in accordance with the Fund constitutions and the law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

REMUNERATION REPORT (audited)

Key management personnel are Directors of Elstree Investment Management Limited, the responsible entity of the Fund. Key management personnel receive no remuneration from the Fund.

AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

As at 30 June 2016 the Fund's key management personnel held the following interests in the Fund

Units held

Directors	Position	Balance at 30 June 2015	Acquisitions/ Options Exercised	Options lapsed	Disposals	Balance at 30 June 2016
C.E. Dawson	Chairman	38,898	1,740	-	-	40,238
N.S. Derham	Director	18,487	1,285	-	-	19,772
J. Abbott	Director	7,360	1,740	-	-	9,100

Units held

Directors	Position	Balance at 30 June 2014	Acquisitions/ Options Exercised	Options lapsed	Disposals	Balance at 30 June 2015
C.E. Dawson	Chairman	35,001	3,897	-	-	38,898
N.S. Derham	Director	15,318	3,169	-	-	18,487
J. Abbott	Director	4,980	2,380	-	-	7,360

Directors and director related entities disposed of and acquired ordinary units and options in the Fund on the same terms and conditions available to other unitholders.

The Directors have not, during or since the end financial year, been granted options over unissued shares or interests in units of the Fund as part of their remuneration.

The Responsible Entity or its associates have no other interests in the Fund except as described above

This concludes the remuneration report, which has been audited.

ENVIRONMENTAL REGULATION

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

PROCEEDINGS ON BEHALF OF FUND

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2016

AUDIT SERVICES

During the year, BDO East Coast Partnership (BDO), the Fund's auditor, did not perform any other services in addition to their statutory duties for the Fund. Details of the amounts paid to the auditor and their related parties are disclosed in note 4 to the Financial Statements.

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the year, the Fund has not paid a premium in respect of a contract to insure the auditor of the Fund or any related entity.

FEES PAID TO AND INTERESTS HELD IN THE FUND BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

In accordance with the PDS and Constitution, the Responsible Entity received a fee of 0.85% of the net value of assets for the management of the Fund for the period ended 30 June 2016. This amount is calculated monthly and paid quarterly and totalled \$140,659 (year ended 30 June 2015: \$128,623).

Interests held in the Fund by the Responsible Entity or its associates are disclosed in note 12 of the Notes to the Financial Statements.

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 12.

This report is signed in accordance with a resolution of the Board of Directors of the Responsible Entity.



Campbell Dawson
Director
Sydney
19 August 2016

DECLARATION OF INDEPENDENCE BY KIERAN GOULD TO THE DIRECTORS OF ELSTREE INVESTMENT MANAGEMENT LIMITED, THE RESPONSIBLE ENTITY OF AUSTRALIAN ENHANCED INCOME FUND

As lead auditor of Australian Enhanced Income Fund for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Kieran Gould
Partner

BDO East Coast Partnership

Sydney, 19 August 2016

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	June 2016 \$	June 2015 \$
Revenue	3(a)	827,881	784,120
Management fees		(140,659)	(128,624)
Fund expenses		(58,430)	(85,293)
Net loss on financial assets held at fair value through profit or loss	3(b)	(287,888)	(745,546)
Profit/(Loss) attributable to unitholders before income tax	6	340,904	(175,343)
Income tax expense	1(a)	-	-
Profit/(Loss) attributable to unitholders		340,904	(175,343)
Finance costs attributable to unitholders			
Distributions paid or payable to unitholders	7	(1,178,178)	(1,031,036)
Decrease in net assets attributable to unitholders		837,274	1,206,379
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income attributable to unitholders		-	-
Basic earnings per unit (cents)	19	0.11	(0.07)
Diluted earnings per unit (cents)	19	0.11	(0.07)

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

AUSTRALIAN ENHANCED INCOME FUND
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	June 2016 \$	June 2015 \$
Assets			
Cash and cash equivalents	8	124,517	456,413
Trade and other receivables	5	1,209,939	140,570
Financial assets held at fair value through profit or loss	9,20	17,802,154	17,529,642
Total Assets		<u><u>19,136,610</u></u>	<u><u>18,126,625</u></u>
Liabilities			
Trade and other payables	10	166,492	206,506
Distributions payable	7	282,086	289,852
Total Liabilities (excluding net assets attributable to unitholders)		<u><u>448,578</u></u>	<u><u>496,358</u></u>
Net assets attributable to unitholders	6	18,688,032	17,630,267
Total Liabilities		<u><u>19,136,610</u></u>	<u><u>18,126,625</u></u>

The statement of financial position should be read in conjunction with the accompanying notes.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

In accordance with AASB 132 Financial Instruments: Presentation, unitholders' funds are classified as a liability and accordingly the Fund has no equity for financial statements purposes. As a result there was no equity at the start or end of the financial year.

AUSTRALIAN ENHANCED INCOME FUND
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	June 2016 \$	June 2015 \$
CASHFLOWS FROM OPERATING ACTIVITIES			
Proceeds from the sale of securities		12,090,478	12,524,744
Purchases of securities		(12,748,650)	(16,141,599)
Dividends and distributions received		417,242	401,164
Interest received		392,347	391,583
Other income		9,375	2,500
Payments to suppliers		(245,473)	(169,734)
Net cash used in operating activities	13	(84,681)	(2,991,342)
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from applications by unitholders		1,042,452	4,119,527
Units redeemed		(104,412)	(19,689)
Distributions paid		(1,185,255)	(967,956)
Net cash from/(used) in financing activities		(247,215)	3,131,882
Net (decrease)/increase in cash and cash equivalents		(331,896)	140,540
Cash and cash equivalents at beginning of period		456,413	315,873
Cash and cash equivalents at end of period	8	124,517	456,413

The statement of cash flows should be read in conjunction with the accompanying notes.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for profit oriented entities.

The Fund is a listed registered managed investment scheme, incorporated and domiciled in Australia.

The financial report has been approved for release by Board of Directors of the Responsible Entity on 19 August 2016. The Board of Directors of the Responsible Entity have the power to amend and reissue the financial report.

The following is a summary of the material accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied, and except where there is a change in accounting policy, are consistent with those of the previous year.

Basis of Preparation

These financial statements comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs with the exception of "held-for-trading" financial assets and certain other financial assets and liabilities which have been measured at fair value.

Amounts in this report have been rounded to the nearest dollar.

The registered office and principal place of business are

Level 10, 30 Collins St.
Melbourne, VIC, 3000

Accounting Policies

(a) Income Tax

Under the Income Tax Assessment Act 1997, the Fund is not subject to income tax provided the net income including assessable capital gains tax is fully distributed to unitholders. The distributions are recognised in the statement of profit or loss and other comprehensive income as financing costs attributable to unitholders.

Where net income is not fully distributable, the undistributed portion is subject to income tax at 48.5%.

Financial assets held at fair value may include 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 Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed to unitholders.

AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Distributions

In accordance with the Fund Constitution, the Fund fully distributes its distributable (taxable) income to unitholders by cash or reinvestment. The distributions are recognised in the statement of profit or loss and other comprehensive income as financing costs attributable to unitholders. The Fund has distributed more than its taxable income over the past two years.

(c) Financial Assets

i) Classification

Financial assets consist of debt securities, including corporate bonds, convertible notes and hybrid securities in publicly listed and unlisted companies and investments in fixed interest securities.

It is considered that the information needs of unitholders in a Fund of this type are better met by stating investments at fair value rather than historical cost and by presenting the statement of financial position on a liquidity basis.

ii) Valuation

All financial assets are classified as "held-for-trading" investments and are recognised at fair value, being market value, with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Financial assets are priced at current bid prices.

iii) Investment income

Dividend and distribution income is recognised in the statement of profit or loss and other comprehensive income on the day on which the relevant investment is first quoted on an "ex-dividend" or "ex-distribution" basis.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(d) Impairment of Assets

At each reporting date, the directors of the responsible entity review the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, at call deposits with banks or financial institutions.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Net Assets Attributable to Unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund at selected times for cash equal to the proportionate share of the Fund's net asset value.

The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to put the units back to the Fund.

(h) Increase/ (Decrease) in Net Assets Attributable to Unitholders

Non-distributable income is included in net assets attributable to unitholders and may consist of unrealised changes in the net fair value of financial instruments held at fair value through profit or loss, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free deferred income. Net assets attributable to unitholders are classified and disclosed as a liability in the statement of financial position.

Net capital gains on the realisation of any financial instruments (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.

(i) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(j) Trade and Other Receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not occurred. Dividends are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of the last payment. Amounts are generally received within 30 days of being recorded as receivables.

The majority in the increase in Receivables relates to the Share Purchase Plan which was transferred to the Fund in early July.

(k) Trade and Other Payables

Trades are recorded on trade date and normally settled within 3 business days. Purchases of securities and investments that are unsettled at reporting date are included in payables.

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the reporting date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position as unitholders are presently entitled to the distributable income at year end under the Fund's constitution.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Applications and Redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are made at the exit price and are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets of the Fund and divided by the number of units on issue.

(m) Expenses

All expenses, including responsible entity's fees and custodian fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

(n) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Fund's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(o) Adoption of new and revised Accounting Standards.

The Fund has adopted all new, revised or amending Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are mandatory for reporting period ending on or prior to 30 June 2016, as provided below. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are no other Standards that are not yet effective and that are expected to have an impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(p) Accounting Standards Not Previously Applied

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet mandatory, have not been early adopted by the Fund for the annual reporting period ended 30 June 2016. As at the date of this report there are a number of new accounting standards and interpretations that have been issued and are applicable to the Fund but are not yet effective for reporting periods ending on or prior to 30 June 2016, as provided below:

AASB 9 Financial Instruments. (issued December 2009 and amended December 2010 and December 2013 and June 2014)	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. There will be no impact on the financial statements when these amendments are first adopted because the Fund recognises Financial Assets as fair value through profit or loss.
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AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. FINANCIAL RISK AND MANAGEMENT POLICIES

The Fund's principal financial instruments comprise receivables, payables, cash and short-term deposits and financial assets held at fair value through profit or loss. These activities expose the Fund to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Although the Fund does not have documented policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate risk and by being aware of market forecasts for interest rates. Liquidity risk is monitored through analysis of market liquidity.

The Fund holds the following financial instruments:

	June 2016	June 2015
	\$	\$
Financial Assets		
Cash and cash equivalents	124,517	456,413
Trade and other receivables	1,209,939	140,570
Financial assets at fair value through profit or loss	<u>17,802,154</u>	<u>17,529,642</u>
Total Financial Assets	<u>19,136,610</u>	<u>18,126,625</u>
Financial Liabilities		
Trade and other payables	166,492	206,506
Distributions payable	<u>282,086</u>	<u>289,852</u>
Total Financial Liabilities	<u>448,578</u>	<u>496,358</u>
Net exposure	<u>18,688,032</u>	<u>17,630,267</u>

Risk Exposures and Responses

Interest rate risk

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

The Fund's exposure to market interest rates relates primarily to the Fund's holding of debt and debt like securities.

The Fund manages its interest rate risk with reference to analysis of the expected change in interest rates due to economic and other factors.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Sensitivity Analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at year end:

	Net Profit Higher / (Lower)		Net Assets Higher / (Lower)	
	Year Ended 30 June		Year Ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
+ 1% (100 basis points)	(621,051)	(777,798)	(621,051)	(777,798)
- 0.5 % (50 basis points)	331,528	415,918	331,528	415,918

This risk is inherently linked to movements in market price. The impact of a change in the yield to expected maturity, as presented above, on post tax profit or net assets is not mutually exclusive to the change in price risk illustrated in the price risk disclosure note below.

Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the reporting date to recognised financial assets is the carrying amount of those assets, net of any allowance for impairment, as disclosed in the statement of financial position and notes to the financial report.

The Fund trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Fund's policy to secure its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Fund's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Price risk

Price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices.

The Fund has exposure to changes in security prices. The Fund's securities are generally listed on the ASX and are exposed to changes in prices due to changes in interest rates and other market risk factors.

Prices are affected by changes in both the general level of interest rates and the extra margin applying to each security. The extra margin is influenced by market, company and security specific issues.

The risk is managed by the responsible entity ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. The following sensitivity analysis is based on the price risk exposures in existence at year end.

	Net Profit Higher / (Lower)		Net Assets Higher / (Lower)	
	Year Ended 30 June		Year Ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Change in price +5%	890,108	876,482	890,108	876,482
Change in price -5%	(890,108)	(876,482)	(890,108)	(876,482)

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Fund will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial liabilities.

The Fund manages liquidity risk by monitoring cash flow and maturity profiles of financial assets and liabilities.

Maturities of financial liabilities

The tables below analyse the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The grouping below is based on the expected maturities of the underlying assets. Unit holders are able to redeem units on a monthly basis and all assets are highly liquid. Carrying value of the financial liabilities approximate future cash outflow.

Year ended 30 June 2016	< 6 months \$	6 – 12 months \$	1 – 5 years \$	> 5 years \$	Total \$
Financial liabilities					
Trade and other payables	166,492	-	-	-	166,492
Distributions payable	282,026	-	-	-	282,026
Financial Liabilities	448,518	-	-	-	448,518
Year ended 30 June 2015					
	< 6 months \$	6 – 12 months \$	1 – 5 years \$	> 5 years \$	Total \$
Financial liabilities					
Trade and other payables	206,506	-	-	-	206,506
Distributions payable	289,852	-	-	-	289,852
Financial Liabilities	496,358	-	-	-	496,358

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Foreign Exchange risk

The Fund has no direct exposure to foreign exchange risk.

Net fair value of Financial Assets and Financial Liabilities

The carrying amounts of financial assets and liabilities are shown in the statement of financial position at their appropriate fair value.

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Year ended 30 June 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through profit or loss	17,296,999	505,155	-	17,802,154
Total	<u>17,296,999</u>	<u>505,155</u>	<u>-</u>	<u>17,802,154</u>

Year ended 30 June 2015	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through profit or loss	17,015,942	513,700	-	17,529,642
Total	<u>17,015,942</u>	<u>513,700</u>	<u>-</u>	<u>17,529,642</u>

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

In valuing the unlisted investment, included in Level 2 of the hierarchy, valuation techniques including valuation of the security by banks and brokers has been adopted to determine the fair value for this investment.

Defaults and breaches

There were no defaults or breaches of financial liabilities during the year.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3. REVENUE FROM ORDINARY ACTIVITIES

(a) Revenue

	June 2016	June 2015
	\$	\$
Dividends and distributions	408,060	411,042
Interest	410,446	370,578
Other income	9,375	2,500
Total Revenue	<u>827,881</u>	<u>784,120</u>

(b) Net gain/ (loss) on financial assets held at fair value through profit or loss

	June 2016	June 2015
	\$	\$
Realised loss on financial assets held at fair value through profit or loss	(467,154)	(13,092)
Unrealised gain/(loss) on financial assets held at fair value through profit or loss	179,266	(732,454)
Total loss on financial assets held at fair value through profit or loss	<u>(287,888)</u>	<u>(745,546)</u>

4. AUDITORS REMUNERATION

Remuneration of the auditor of the Fund for:

	June 2016	June 2015
	\$	\$
Auditing or reviewing the financial report by BDO	27,778	27,162
	<u>27,778</u>	<u>27,162</u>

No non-audit services were provided to the Fund by BDO East Coast Partnership for the year ended 30 June 2016 (2015: Nil)

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

5. TRADE AND OTHER RECEIVABLES

	June 2016	June 2015
	\$	\$
Other receivables	<u>1,209,939</u>	<u>140,570</u>
	<u>1,209,939</u>	<u>140,570</u>

Trade debtors relate to outstanding settlements and income receivables, and are on the terms operating in the securities industry. Settlements are made within three days of the date of a transaction. Income receivable relates to accrued income and are non-interest bearing and unsecured.

The majority of the increase in receivables relates to the Share Purchase Plan and was received by the Fund in early July.

No trade or other receivables owed were past the due date and no allowances for impairment are required.

6. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Movements in the number of units and net assets attributable to unitholders during the period were as follows;

As stipulated in the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Net assets attributable to unitholders

	June 2016 No.	June 2016 \$
Opening balance	2,898,519	17,630,267
Applications	342,193	1,999,452
Redemptions	(16,888)	(104,412)
Profit attributable to unitholders before income tax	-	340,904
Distributions paid and payable	-	(1,178,178)
Closing balance	<u>3,223,824</u>	<u>18,688,033</u>

	June 2015 No.	June 2015 \$
Opening balance	2,249,528	14,736,807
Applications	651,986	4,119,526
Redemptions	(2,995)	(19,687)
Loss attributable to unitholders before income tax	-	(175,343)
Distributions paid and payable	-	(1,031,036)
Closing balance	<u>2,898,519</u>	<u>17,630,267</u>

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

6. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (CONTINUED)

The following rights and benefits are attached to the units on issue:

Distributions

The Fund intends to distribute all its taxable profits each year to unitholders. The Fund has distributed more than its taxable income for the past two years.

Redemptions

The manager offers a redemption of units on 12 dates during the year. Units can only be redeemed at the exit price.

Winding up

After paying or making allowances for anticipated liabilities, subject to the rights and obligations attaching to any class, the net proceeds must be distributed pro rata to investors according to the number of units they hold at termination.

7. DISTRIBUTIONS TO UNITHOLDERS

Distributions paid or payable by the Fund for the year ended 30 June 2016	Cents per unit	Total amount \$	Date of payment
	0.10	288,476	15/10/15
	0.10	302,246	15/1/16
	0.10	305,371	15/4/16
	0.0875	282,085	15/7/16
	<u>0.3875</u>	<u>1,178,178</u>	

Distributions paid or payable by the Fund for the year ended 30 June 2015	Cents per unit	Total amount \$	Date of payment
	0.10	226,463	15/10/14
	0.10	226,750	15/1/15
	0.10	287,971	15/4/15
	0.10	289,852	15/7/15
	<u>0.40</u>	<u>1,031,036</u>	

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

7. DISTRIBUTIONS TO UNITHOLDERS (CONT)

Under the Income Tax Assessment Act 1997, the Fund is not subject to income tax, provided the net income including assessable capital gains (if any) is fully distributed to unitholders. No liability has been provided for income tax as it is unlikely that any taxable income will be retained by the Fund.

In accordance with the Trust Deed and applicable tax legislation, the Fund fully distributes by cash or reinvestment, distributable income to unitholders. Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains.

The benefits of imputation credits and foreign taxes paid (if any) are passed to the unitholders. A Distribution Reinvestment Plan is available to unitholders. Details are available at www.eiml.com.au

8. CASH AND CASH EQUIVALENTS

Cash as at the end of the financial year is as follows:

	June 2016 \$	June 2015 \$
Cash at bank and on hand	<u>124,517</u>	<u>456,413</u>

The weighted average interest rate for cash securities as at 30 June 2016 is 1.1% (30 June 2015 1.4%).

9. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 2016 \$	June 2015 \$
Listed investments	<u>17,802,154</u>	<u>17,529,642</u>

The listed investments are debt or debt like securities with known or calculable coupons and interest payments and fixed or calculable redemption amounts.

10. TRADE AND OTHER PAYABLES

	June 2016 \$	June 2015 \$
Trade and other payables	35,912	30,223
Amounts owed to related entities	130,580	176,283
	<u>166,492</u>	<u>206,506</u>

Trade creditors relate to outstanding settlements, and are on the terms operating in the securities industry. There require settlement within three (3) days of the date of the transaction. Sundry creditors are settled within the terms of payment offered. No interest is applicable on these accounts.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

11. RELATED PARTY TRANSACTIONS

Responsible Entity

The responsible entity for the Australian Enhanced Income Fund and ultimate controlling party is Elstree Investment Management Limited.

Responsible Entity's/Managers fees and other transactions

In accordance with the Constitution, fees for the Fund were a management fee of 0.85% on the net value of assets.

The Fund pays the expenses of the operation of the Fund, including but not limited to listing expenses, audit and other accounting fees, and registry expenses

The Management fee paid to the Fund for the year ended 30 June 2016 was \$140,659 (year ended 30 June 2015: \$128,624). At year end the Fund had an accrued liability for Management Fees of \$38,979 (year ended 30 June 2015: \$38,865) and other amounts payables of \$127,513 (year ended 30 June 2015: \$137,418).

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The names and position held of the Company's key management personnel (including Directors) in office at any time during the financial year are:

C.E. Dawson	Chairman
N.S. Derham	Director & Company Secretary
J. Abbott	Director

a) Remuneration

There are no executives that are paid by the Fund. Elstree Investment Management Limited, the investment manager of the Fund, remunerates Campbell Dawson, Norman Derham and John Abbott as employees and/or directors of the Company. The Manager also provides day to day management of the Fund and is remunerated as outlined in the Directors' Report.

No fees have been paid directly by the Fund to the Directors of the Responsible Entity.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

13. CASH FLOW INFORMATION

Reconciliation of profit attributable to unitholders to cashflows from operating activities

	June 2016 \$	June 2015 \$
Net profit/(loss)	340,904	(175,343)
Net loss on financial instruments held at fair value through profit or loss	287,888	745,546
Proceeds from sale of financial instruments held at fair value through profit or loss	12,090,478	12,524,744
Purchases of financial instruments held at fair value through profit or loss	(12,478,650)	(16,141,599)
(Decrease)/increase in other receivables	(8,917)	11,126
(Decrease)/increase in other payables	(46,384)	44,182
Net cash (used)/provided by operating activities	<u>(84,681)</u>	<u>(2,991,342)</u>

14. SEGMENT INFORMATION

Australian Enhanced Income Fund is a registered managed investment scheme, incorporated and domiciled in Australia. The Fund's principal activity is investment management, conducted primarily in Australia.

15. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities at 30 June 2016. (30 June 2015: nil)

16. COMMITMENTS FOR EXPENDITURE

There were no commitments for expenditure at 30 June 2016. (30 June 2015: nil)

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

17. EVENTS OCCURRING AFTER THE REPORTING DATE

No significant events have occurred since reporting date which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2016 or on the results and cash flows of the Fund for the period ended on that date.

18. CAPITAL MANAGEMENT

The capital of the Fund was managed by the responsible entity according to the PDS and Constitution. The capital managed includes unit holder funds and any borrowings that the Fund may have. The Fund will use a prudent level of leverage. Currently, maximum leverage is expected to be 20%. The Fund used no leverage in the 2015/2016 financial year

The gearing ratios of the Fund, the ratio of debt to investment assets are as follows

	June 2016 \$	June 2015 \$
Net unit holder funds	18,688,032	17,630,267
Total capital	<u>18,688,032</u>	<u>17,630,267</u>
Gearing ratio	0%	0%

19. EARNINGS PER UNIT

	June 2016 \$	June 2015 \$
Net Profit used in calculations of basic earnings per unit	340,904	(175,343)
Weighted average number of units outstanding during the year used in the calculation of basic earnings per unit	2,975,005	2,462,022
Weighted average number of units outstanding during the year used in the calculation of diluted earnings per unit	2,975,005	2,462,022

20. INVESTMENT DISCLOSURES

During the period the Fund purchased and sold securities to the value of \$25,404,054 (2015: \$28,744,795). The Fund paid brokerage of \$13,017 (2015: \$13,017).

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

20. INVESTMENT DISCLOSURES (CONTINUED)

The Fund securities holdings as at 30 June 2016 were as follows:

AGL Sub notes	\$ 215,730
AMP Capital Notes	\$ 157,215
ANZ Cap Notes 3	\$ 89,927
ANZ Capital Note 2	\$ 767,453
ANZ Capital Notes	\$ 157,676
ANZ CPS3	\$ 249,423
ANZ Sub Notes	\$ 101,050
APT Pipelines Sub Note	\$ 266,044
Australian Unity Bonds B	\$ 98,488
Bendigo & Adel Bk CPS2	\$ 324,290
Caltex Sub Notes	\$ 358,435
CBA CPS	\$ 1,093,706
CBA PERLS VII	\$ 879,100
CBA PERLS VIII	\$ 1,106,648
Challenger Cap Notes	\$ 656,849
Colonial Sub Notes	\$ 704,173
Crown Sub Notes II	\$ 838,318
Crown Sub Notes	\$ 92,635
Goodman PLUS	\$ 901,570
Heritage Bank Retail Bonds	\$ 127,431
IAG CPS	\$ 429,462
IAG Reset Exch Sec	\$ 183,400
IAG Sub FRN(19/3/40)	\$ 505,155
Macquarie Cap notes	\$ 40,317
Macquarie Income Securities	\$ 160,987
Multiplex Sites	\$ 258,379
NAB Capital Notes	\$ 489,644
NAB CPS	\$ 659,522
NAB CPSII	\$ 1,098,735
NAB Income Securities	\$ 690,561
Nufarm Step Up Securities	\$ 229,625
Origin Energy Notes	\$ 431,646
Paperlinx Step Up Prefs	\$ 33,780
Ramsay Health CARES	\$ 263,165
Suncorp Sub Note	\$ 211,505
Tatts Bonds	\$ 155,715
WBC Cap Note 3	\$ 201,195
WBC Sub notes II	\$ 601,588
WBC Sub Notes	\$ 276,439
Westpac Cap Notes 4	\$ 410,000
Westpac Conv Cap Note II	\$ 219,487
Westpac Conv Cap Note	\$ 813,775
Westpac CPS	\$ 142,911
Whitefield CRPS	\$ 109,000
	\$ 17,802,154

DIRECTORS DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors



Campbell Dawson
Director

19 August 2016

Sydney

INDEPENDENT AUDITOR'S REPORT

To the members of Australian Enhanced Income Fund

Report on the Financial Report

We have audited the accompanying financial report of Australian Enhanced Income Fund (the fund), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity (the directors) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund's preparation of the financial report that gives a true and fair view 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 fund's internal control. 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 complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Elstree Investment Management Ltd as Responsible Entity of Australian Enhanced Income Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Australian Enhanced Income Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 of the directors' report for the year ended 30 June 2016. The directors of the Responsible Entity are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Enhanced Income Fund for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO



Kieran Gould

Partner

Sydney, 19 August 2016

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Unit holder Information

Distribution

The following unit holder information was applicable as at 17 August 2016

Distribution of Holdings	No of units
1-1000	52,685
1,001 – 5,000	597,642
5,001 – 10,000	612,328
10,001 – 100,000	1,352,186
100,001 and greater	613,077
Total	3,227,918

Top 20 unitholders

The details of the top 20 unitholders as at 17 August 2016 are detailed below

Unit Holder	No of units held	Percent
J P MORGAN NOMINEES AUSTRALIA LIMITED	613,077	18.99
MRS MARITA TOOHER	69,900	2.17
MR MICHAEL COFFIN <BLUE SKY S/F A/C>	53,043	1.64
ROBEV PTY LTD <LYNN SUPER FUND A/C>	50,000	1.55
MR ADRIAN TODD	44,547	1.38
MR CAMPBELL DAWSON <SPAGHETTI HEAD SUPER FUND AC>	40,238	1.25
MR ROBERT LAURENCE BOORMAN + MRS LAURA BOORMAN <BOORMAN SUPER FUND A/C>	38,074	1.18
MR GEOFFREY PHILIP REYNOLDS + MRS SUZANNE RUTH REYNOLDS <REYNOLDS FAMILY SUPER A/C>	37,413	1.16
MR PETER WILLIAM THORP + MRS CATHY-MAE THORP <THORP SUPER FUND A/C>	33,703	1.04
MR ALASDAIR BRIAN WEST + MR DAVID JAMES HUGHES <EST FRG STRICKLAND A/C>	31,096	0.96
MR MALCOLM JOHN MATTHEWS + MR PETER TIMOTHY HEINZ + MR SIMON JAMES COGHLAN <BECKWORTH A/C>	30,000	0.93
JAYTU PTY LTD <J W GARDNER SUPER FUND A/C>	30,000	0.93
MISS ALEXANDRA LISA SCHULTZ <ROCKPOOL A/C>	27,863	0.86
P & D WILLIAMSON SUPER PTY LTD <WILLIAMSON SUPER FUND A/C>	26,609	0.82
MR JUSTIN PATRICK LYNCH + MRS PAULA LEVENA LYNCH <LYNCH FAMILY S/F - DPM A/C>	25,964	0.8
FIFTY FIFTY-ONE PTY LTD <LALUCIOLA INVESTMENT A/C>	25,000	0.77
MR ADRIAN GROSTATE A GROSTATE SUPER FUND A/C	24,107	0.75
MRS RAYMA MAY EVANS	23,200	0.72
BOND STREET CUSTODIANS LIMITED <DSK - RB0344 A/C>	22,542	0.7
BOND STREET CUSTODIANS LIMITED <DSSB - P67756 A/C>	21,042	0.65

Substantial Holders

Unit Holder	No of units held	Percent
FIRST SAMUEL LIMITED	628,126	19.48%

The unit registry provider is:
Advanced Share Registries Ltd
110 Stirling Highway
Nedlands, WA 6009