

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

**ANNUAL REPORT
FOR YEAR
ENDING 30 JUNE 2011**

**RESPONSIBLE ENTITY
ELSTREE INVESTMENT MANAGEMENT LTD
LEVEL 15, 333 COLLINS ST
MELBOURNE, VIC, 3000**



AUSTRALIAN ENHANCED INCOME FUND
ARSN (115 632 990)

The Australian Enhanced Income Fund (the "Fund") is a Listed Investment Trust (LIT). The fund invests in a pool of Australian listed hybrid securities.

The Responsible Entity of the fund is Elstree Investment Management Ltd (ABN 20 079 036 810).

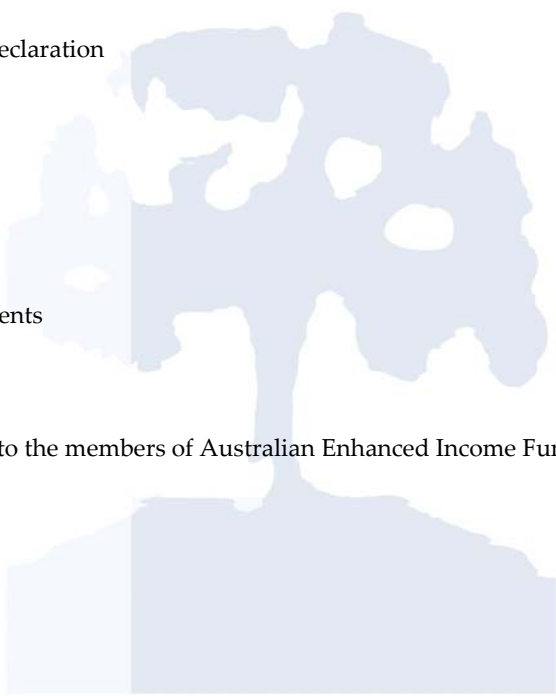
Directors	Campbell Dawson (Chairman) Norman Derham (Company Secretary) John Abbott
Auditors	PKF Chartered Accountants and Business Advisers
Registered Office	Level 15, 333 Collins Street, Melbourne VIC 3000
Contact Details	Mail Address: Level 15, 333 Collins Street Melbourne VIC 3000 Telephone: (03) 8689 1348 Facsimile: (03) 9655 8492 Email: info@eiml.com.au Website: www.eiml.com.au
Share Register	Boardroom Pty Limited Level 7, 207 Kent Street, Sydney NSW 2000 Telephone: 1300 737 760 Facsimile: 1300 653 459 Email: enquiries@boardroomlimited.com.au
Stock Exchange	Australian Securities Exchange (ASX)
ASX Code	AYF (Fully Paid Units)

FUND PROFILE

<i>Investment pool</i>	The Australian Enhanced Income Fund (the “Fund”) invests in a pool of ASX listed debt equity hybrid securities using the portfolio construction methods successfully employed over a number of years by Elstree Investment Management Limited.
<i>Investment return</i>	The total investment return of the Fund for the period June 30, 2010 to June 30, 2011 was +11.60%.
<i>Number of securities</i>	The portfolio typically contains between 30 and 40 ASX listed debt equity hybrid securities.
<i>Minimum distribution</i>	The Fund’s Responsible Entity reduced the minimum cash distribution rate from 7% to 5% per annum (net of fees) from the September Quarter 2009. Should official interest rates rise or the coupon margin the Fund receives from its investments widen the Responsible Entity will reconsider its decision.
<i>Payment frequency</i>	Distributions are paid quarterly.
<i>Reinvestment</i>	Reinvestment is available at each distribution point.
<i>Franking Credits</i>	Franking credits may be attached to distributions. The amount of franking is dependant upon the manager’s strategies. Franking credits typically add around \$0.10 per unit per annum to the cash distributions of the fund.
<i>Off market redemption</i>	Unit holders can redeem units in the Fund at the Fund’s Net Asset Value (NAV) of a unit less an allowance for transaction costs throughout the life of the fund. Off market redemptions are conducted quarterly. Unit holders wishing to redeem units must give the Fund’s administrator one month’s advanced notice in writing.
<i>Timeframe</i>	The suggested timeframe for an investment in the fund is 3 years.
<i>Product benefits</i>	<ul style="list-style-type: none">• Increased security diversification• Reduced risk• Superior risk adjusted vis-à-vis individual securities• Cash flow certainty• Liquidity – ASX and quarterly off market redemption facility.

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MARKET AND PERFORMANCE REVIEW

The Australian Enhanced Income Fund produced a healthy result in the 2011 Financial year returning 11.6%. The total return of 11.6% comprised;

- An increase in the NAV of \$0.163
- Distributions of \$0.50
- Franking credits equivalent to \$0.08

Over the same period the All Ordinaries Accumulation Index returned 12.2%.

The performance last year continues the improved trend in hybrid security prices experienced since financial markets bottomed in March 2009.

Last year saw an ongoing improvement in world economies and markets, albeit at a slower pace and in a choppy manner.

- Despite fears in mid 2010 that the United States (US) would fall into a double dip recession, economic growth continued albeit at a reduced pace,
- The markets worst fears about the collapse of the Euro periphery countries did not eventuate with a compromise package that, depending on your view, either averted or merely delayed the problem,
- The markets worst fears regarding the US budget crisis did not eventuate,
- The global financial system and most household sectors continued to de-leverage,
- Corporate default rates fell dramatically again and are now approaching 40 year lows and
- World growth was maintained at healthy levels.

Outlook

As with last year, we expect the hybrid market to continue to produce healthy returns for the next few years. Many factors are still supportive;

- The yields on most hybrids are still remarkably high by historical standards. Although term deposit rates have been attractive over the past few years, we expect that they will fall materially this year, increasing the attractiveness of hybrid securities,
- Return volatility continues to fall from the levels experienced during the GFC, albeit with spikes when there is sustained stress,

- The prospects of increased financial stress for most of the hybrid issuers is limited. In almost all cases companies are either profitable or have (or are in the process of) reducing debt to very low levels,
- Market sentiment, in general, is very negative and has anticipated un-favourable outcomes on a number of fronts,
- We believe that the world economy will continue it's slow and messy recovery from the GFC and
- As a total return forecast, we wouldn't be surprised to see the Fund produce a return in line with that experienced in 2010/2011.

Distributions

The distribution for the Fund for the past 12 months has been at the annual rate of \$0.50 per unit (\$0.125 per quarter). This is approximately the rate of income earned by the Fund. Should cash rates rise further, or should the Fund invest in higher coupon securities, we will raise the minimum distribution rate. It should be noted that the distributions are partially franked and the benefit of the franking credit over the past few years has been in the order of \$0.10 per unit per annum.

Once again we would like to thank our unit holders for their ongoing support.

As with previous years we will be holding information sessions in most of the nation's capital cities. We look forward to your attendance.



Campbell Dawson (Chairman).



AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement

The Australian Enhanced Income Fund ("the Fund") is a Registered Managed Investment Scheme under the Corporations Act 2001.

Elstree Investment Management Limited is the Responsible Entity for the Fund.

A Responsible Entity has various responsibilities in the operation of Registered Schemes that relate to the operation of the Scheme in accordance with Constitution of the Fund. These include, amongst other duties

- Exercising a duty of care and diligence
- Act in the best interests of unitholders
- Treat unit holders equally if they hold the same class of units
- Treat unit holders fairly if they hold different classes of units
- Ensure that all transactions are in accordance with Constitution
- Report any breaches that may have a material adverse impact on unitholders interests

Corporate Governance Practices

The board of Elstree Investment Management Limited is detailed in the Directors Report. The directors have extensive experience in investment markets and in the operation of investment funds.

None of the directors are independent for the purposes of compliance and for that reason, the Fund has a Compliance Committee which has a majority of independent members. This satisfies the independence obligations required under the Corporations Act 2001.

The Fund operates with a Compliance Committee which has a majority of independent members. The Compliance Committee members are remunerated by the Responsible Entity, although this expense may be reclaimed by the Responsible Entity from the Fund.

Meetings are held quarterly and members have access to the books and records of the Fund and any other relevant information of the Fund. They also have access to the auditors of the Responsible Entity, the Fund or the auditor of the Compliance Plan.

Under the Corporations Act 2001, the auditor of the Compliance Plan must be different from the auditor of the Responsible Entity and the Fund.



AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

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 2011.

PRINCIPAL ACTIVITIES

The Fund invests in listed 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 of the Australian Enhanced Income Fund is Elstree Investment Management Limited.

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

Campbell Dawson

Norman Derham

John Abbott

Company Secretary of the Manager

Norman Derham

REVIEW OF OPERATIONS

During the period the Fund managed the investments in accordance with the Product Disclosure Statement and the Constitution.

The performance of the Fund was as follows;

	Period ended 30 June 2011	Period ended 30 June 2010
Net Operating Profit	\$ 2,306,243	\$ 5,096,934
Distributions paid and payable	1,634,789	1,711,298
Distributions (cents per unit)	50.0	50.0



AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

FINANCIAL POSITION

Net Asset Value per unit as disclosed to the ASX

	Year ending 30 June 2011	Year ending 30 June 2010
As at end of the year	\$6.729	\$6.566
High during the year	\$6.937	\$6.788
Low during the year	\$6.527	\$5.993

Unit Movements and issue

	Year ending 30 June 2011	Year ending 30 June 2010
Units on issue at start of year	3,405,998	3,256,528
Units issued	104,785	188,351
Units redeemed	(304,760)	(38,881)
Units on issue at end of year	3,206,023	3,405,998

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

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.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters or circumstances that have arisen since 30 June 2011 that have significantly affected, or may significantly affect,

- the operations of the Fund in future financial years; or
- 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

Key management personnel are Directors of Elstree Investment Management Ltd, the Responsible Entity of the Fund. Key management personnel receive no remuneration from the Fund.



AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

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 company 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.

AUDIT SERVICES

During the year, PKF, 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.

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% for the management of the Fund for the period ended 30 June 2011. This amount is calculated monthly and paid quarterly and totalled \$180,433 (year ended 30 June 2010: \$178,526).

In accordance with the PDS and Constitution, the Responsible Entity receives a performance fee equivalent to 10% of the outperformance of a benchmark return comprised of the UBS Bank Bill return for the period plus a margin of 1.25%. The amount is accrued during the year and paid following the end of the year. There was no fee paid for the year ended 30 June 2011 (Year ended 30 June 2010: \$0).

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



AUSTRALIAN ENHANCED INCOME FUND
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DIRECTORS OF THE RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

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 8.

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

Campbell Dawson
Director Sydney
31 August 2011





Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

**To: The Directors of Elstree Investment Management Limited, the Responsible Entity of
Australian Enhanced Income Fund**

I declare to the best of my knowledge and belief, in relation to the audit for the financial years ended 30 June 2011 there have been:

- a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

**Arthur Milner
Partner**

31 August 2011
Sydney

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Liability limited by a scheme approved under Professional Standards Legislation.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	June 2011 \$	June 2010 \$
Revenue	3(a)	1,668,789	1,424,749
Management fees		(180,433)	(178,526)
Fund expenses		(115,012)	(128,262)
Finance costs		-	-
Net gain/(loss) on financial assets held at fair value through profit and loss	3(b)	932,899	3,978,973
Profit attributable to unitholders before income tax	6	2,306,243	5,096,934
Income tax expense	1(a)	-	-
Profit attributable to unitholders		2,306,243	5,096,934
Finance costs attributable to unitholders			
Distributions paid or payable to unitholders		(1,634,789)	(1,711,298)
(Increase) in net assets attributable to unitholders		(671,454)	(3,385,636)
Other comprehensive income for the year		-	-
Total comprehensive income attributable to unitholders		-	-
Basic earnings per unit (cents)	19	71.9	150.0
Diluted earnings per unit (cents)	19	71.9	150.0

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

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	June 2011 \$	June 2010 \$
Assets			
Cash and cash equivalents	8	1,251,284	1,547,419
Trade and other receivables	5	118,688	96,666
Financial assets held at fair value through profit and loss	9	20,400,098	20,858,404
Total Assets		21,770,070	22,502,489
Liabilities			
Trade and other payables	10	136,283	146,609
Distributions payable	7	400,754	425,750
Total Liabilities (excluding net assets attributable to unitholders)		537,037	572,359
Net assets attributable to unitholders	6	21,233,033	21,930,130
Total Liabilities		21,770,070	22,502,489

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
AS AT 30 JUNE 2011

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 and as such the Fund is not required to have a Statement of Changes in Equity.



AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	June 2011 \$	June 2010 \$
CASHFLOWS FROM OPERATING ACTIVITIES			
Proceeds from the sale of securities		6,101,721	8,667,006
Purchases of securities		(4,710,516)	(9,002,368)
Dividends and distributions received		425,127	433,630
Interest received		1,225,467	1,074,473
Other income		750	8,711
Payments to suppliers		310,348	(265,591)
Interest paid		-	-
Net cash provided by operating activities	13(a)	2,732,201	915,861
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from applications by unitholders		691,497	1,111,860
Units redeemed		(2,060,047)	(257,648)
Distributions paid		(1,659,786)	(1,855,441)
Net cash used in financing activities		(3,028,336)	(1,001,229)
Net increase in cash and cash equivalents		(296,135)	(85,368)
Cash and cash equivalents at beginning of period		1,547,419	1,632,787
Cash and cash equivalents at end of period	13(b)	1,251,284	1,547,419

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 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements of the Fund comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Australian Enhanced Income 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 31 August 2011. 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

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.

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 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
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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 Comprehensive Income as financing costs attributable to unitholders.

(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 Comprehensive Income. Financial Assets are priced at current bid prices.

iii) Investment income Dividend and distribution income is recognised in the Statement of 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 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.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(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 Statement of Financial Position 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

Comparatives for 30 June 2010 are included. 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.

(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 balance 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 2011

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 Comprehensive Income on an accruals basis.

Borrowing costs are recognised as an expense in the period in which they are incurred.

(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.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) New Accounting Standards for Application in Future Periods

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 2011, as provided below.

<p>AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2013).</p>	<p>The revised AASB 9 incorporates the IASB's completed work on Phase 1 of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement) on the classification and measurement of financial assets and financial liabilities. The Standard includes requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. AASB 9 (issued in 2009) only included requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 (AASB 139).</p>
<p>AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023, 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).</p>	<p>This Standard gives effect to the consequential changes arising from the issuance of AASB 9: Financial Instruments.</p>
<p>AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB (December 2010) [AASB 1, 3, 4, 5, 7, 101, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).</p>	<p>This Standard makes numerous amendments to Australian Accounting Standards and Interpretations listed above as a result of the amendments to AASB 9.</p>
<p>AASB 1053: Application of Tiers of Australian Accounting Standards (applicable for annual reporting periods commencing on or after 1 January 2013).</p>	<p>This standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements, being Tier 1 Australian Accounting Standards and Tier 2 Australian Accounting Standards - Reduced Disclosure Requirements.</p>

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Adoption of new and revised Accounting Standards (continued)

<p>AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (applicable for annual reporting periods commencing on or after 1 January 2013).</p>	<p>The Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.</p>
<p>Revised AASB 124: Related Party Disclosures (December 2009) (applicable for annual reporting periods commencing on or after 1 January 2011).</p>	<p>Simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition of a related party.</p>
<p>AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).</p>	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p>AASB 1 First-time Adoption of Australian Accounting Standards</p> <ul style="list-style-type: none"> ▶ Accounting policy changes in the year of adoption ▶ Revaluation basis as deemed cost ▶ Use of deemed cost for operations subject to rate regulation <p>AASB 7 Financial Instruments: Disclosures</p> <ul style="list-style-type: none"> ▶ Clarification of disclosures <p>AASB 101 Presentation of Financial Statements</p> <ul style="list-style-type: none"> ▶ Clarification of statement of changes in equity <p>AASB 134 Interim Financial Reporting</p> <ul style="list-style-type: none"> ▶ Significant events and transactions <p>Interpretation 13 Customer Loyalty Programmes</p> <ul style="list-style-type: none"> ▶ Fair value of award credits in equity
<p>AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 11, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods commencing on or after 1 January 2011).</p>	<p>This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.</p>

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Adoption of new and revised Accounting Standards (continued)

<p>AASB 13: Fair value measurement (applicable for annual reporting periods commencing on or after 1 January 2011).</p>	<p>AASB 13:</p> <ul style="list-style-type: none"> ▶ Defines fair value; ▶ Sets out in a single IFRS a framework for measuring fair value; and ▶ Requires disclosures about fair value measurements. <p>The standard does not require fair value measurements in addition to those already required or permitted by other IFRSs.</p>
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The directors anticipate that the adoption of these Standards in future periods will have no material financial impact on the financial statements of the Fund.

(p) Accounting Standards Not Previously Applied

The Fund has not adopted any new or revised Australian Accounting Standards issued by the AASB in the current reporting period.

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 and 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.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

The Fund holds the following financial instruments:

	June 2011	June 2010
	\$	\$
Financial Assets		
Cash and cash equivalents	1,251,284	1,547,519
Trade and other receivables	118,688	96,666
Financial assets at fair value through profit and loss	20,400,098	20,858,404
Total Financial Assets	21,770,070	22,502,489
Financial Liabilities		
Trade and other payables	136,283	146,609
Distributions payable	400,754	425,750
Total Financial Liabilities	537,037	572,359
Net exposure	21,233,033	21,930,130

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 2011

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.

If interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and net assets would have been affected as follows:

	Net Profit Higher / (Lower)		Net Assets Higher / (Lower)	
	Year Ended 30 June		As at 30 June	
	2011	2010	2011	2010
	\$	\$	\$	\$
+ 1% (100 basis points)	(244,705)	(806,415)	(244,705)	(806,415)
- 0.5 % (50 basis points)	91,587	403,208	91,587	403,208

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 balance 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 securities 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.

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.

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

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		As at 30 June	
	2011	2010	2011	2010
	\$	\$	\$	\$
Change in price +5%	1,020,005	1,042,920	1,020,005	1,042,920
Change in price -5%	(1,020,005)	(1,042,920)	(1,020,005)	(1,042,920)

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.

Year ended 30 June 2011	< 6 months	6 – 12 months	1 – 5 years	> 5 years	Total
	\$	\$	\$	\$	\$
Financial liabilities					
Trade and other payables	136,283	-	-	-	136,283
Distributions payable	400,754	-	-	-	400,754
Financial Liabilities	537,037	-	-	-	537,037
Net Assets attributable to unitholders	3,407,615	1,639,391	11,464,117	4,721,910	21,233,033

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Year ended 30 June 2010	< 6 months	6 – 12 months	1 – 5 years	> 5 years	Total
	\$	\$	\$	\$	\$
Financial liabilities					
Trade and other payables	146,609	-	-	-	146,609
Distributions payable	425,750	-	-	-	425,750
Financial Liabilities	572,359	-	-	-	572,359
Net Assets attributable to unitholders	2,060,964	1,225,186	11,039,242	7,604,738	21,930,130

AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	\$17,942,378	\$2,457,720	-	\$20,400,098
Total	\$17,942,378	\$2,457,720	-	\$20,400,098
Year ended 30 June 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	\$18,604,864	\$2,253,540	-	\$20,858,404
Total	\$18,604,864	\$2,253,540	-	\$20,858,404

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.

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2. FINANCIAL RISK AND MANAGEMENT POLICIES (CONTINUED)

Defaults and breaches

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

3. REVENUE FROM ORDINARY ACTIVITIES

(a) Revenue

	June 2011	June 2010
	\$	\$
Dividends & Distributions	442,004	430,227
Interest	1,226,035	985,811
Other income	750	8,711
Total Revenue	<u>1,668,789</u>	<u>1,424,749</u>

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

	June 2011	June 2010
	\$	\$
Unrealised gain (loss) on financial assets held at fair value through profit and loss	407,310	3,012,441
Realised gain (loss) on financial assets held at fair value through profit and loss	525,589	966,532
Total gain/(loss) on financial assets held at fair value through profit and loss	<u>932,899</u>	<u>3,978,973</u>

4. AUDITORS REMUNERATION

Remuneration of the auditor of the Fund for:

	June 2011	June 2010
	\$	\$
Auditing or reviewing the financial report by PKF	15,500	15,000
	<u>15,500</u>	<u>15,000</u>

No non-audit services were provided to the Fund by PKF for the year ended 30 June 2011 and the year ended 30 June 2010.



AUSTRALIAN ENHANCED INCOME FUND
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5. TRADE AND OTHER RECEIVABLES

	June 2011	June 2010
	\$	\$
Other receivables	118,688	96,666
	<u>118,688</u>	<u>96,666</u>

Trade debtors relate to outstanding settlements, and are on the terms operating in the securities industry. These require the settlement within three (3) days of the date of a transaction. Other receivables relate to accrued income and are non-interest bearing and unsecured.

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 2011 No.	June 2011 \$
Opening balance	3,405,998	21,930,130
Applications	104,785	691,497
Redemptions	(304,760)	(2,060,047)
Profit attributable to unitholders before income tax	-	2,306,243
Distributions paid and payable	-	(1,634,790)
Closing balance	<u>3,206,023</u>	<u>21,233,033</u>
	June 2010 No.	June 2010 \$
Opening balance	3,256,528	17,690,283
Applications	188,351	1,111,860
Redemptions	(38,881)	(257,649)
Loss attributable to unitholders before income tax	-	5,096,934
Distributions paid and payable	-	(1,711,298)
Closing balance	<u>3,405,998</u>	<u>21,930,130</u>

AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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.

Redemptions

The manager offers a redemption of units on 4 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 2011	Cents per unit	Total amount \$	Date of payment
	12.5	412,537	15/10/2010
	12.5	408,206	17/1/2011
	12.5	413,292	15/4/2011
	12.5	400,754	15/7/2011
	<u>50.0</u>	<u>1,634,789</u>	

Distributions paid or payable by the Fund for the year ended 30 June 2010	Cents per unit	Total amount \$	Date of payment
	12.5	429,630	15/10/2009
	12.5	429,850	15/1/2010
	12.5	426,068	16/4/2010
	12.5	425,750	16/7/2010
	<u>50.0</u>	<u>1,711,298</u>	



AUSTRALIAN ENHANCED INCOME FUND
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7. DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

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 2011	June 2010
	\$	\$
Cash at bank and on hand	<u>1,251,284</u>	<u>1,547,419</u>

The weighted average interest rate for cash securities as at 30 June 2011 is 4.4% (30 June 2010 3.7%).

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

	June 2011	June 2010
	\$	\$
Listed investments	<u>20,400,098</u>	<u>20,858,404</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 2011	June 2010
	\$	\$
Other payables	<u>136,283</u>	<u>146,609</u>
	<u>136,283</u>	<u>146,609</u>

**AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

10. TRADE AND OTHER PAYABLES (CONTINUED)

Other payables 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
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11. RELATED PARTY TRANSACTIONS

Responsible Entity

The Responsible Entity for the Australian Enhanced Income Fund is Elstree Investment Management Ltd.

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
- A performance fee of 10% of the excess of the UBS Bank Bill index +1.25%

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 2011 was \$180,433 (year ended 30 June 2010: \$178,526)

There was no performance fee payable for the year ended 30 June 2011 (year ended 30 June 2010: \$0)

At year end the Fund had an accrued liability for Management Fees of \$48,095 (year ended 30 June 2010: \$48,447)

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
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

12. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

b) Unit holdings

As at 30 June 2011 the Fund's key management personnel held the following interests in the Fund.

Units held

Directors	Position	Balance at June 2010	30 Acquisitions/ Options Exercised	Options lapsed	Disposals	Balance at 30 June 2011
C.E. Dawson	Chairman	23,595	4,560	-	-	28,155
N.S. Derham	Director	9,820	2,566	-	-	12,386
J. Abbott	Director	2,695	2,265	-	-	4,980

Units held

Directors	Position	Balance at June 2009	30 Acquisitions/ Options Exercised	Options lapsed	Disposals	Balance at 30 June 2010
C.E. Dawson	Chairman	21,900	1,695	-	-	23,595
N.S. Derham	Director	5,000	4,820	-	-	9,820
J. Abbott	Director	1,000	1,695	-	-	2,695

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 in the Responsible Entity or interests in units of the Fund as part of their remuneration.

AUSTRALIAN ENHANCED INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

13(a). CASH FLOW INFORMATION

Reconciliation of Operating Profit to net cash inflow

	June 2011	June 2010
	\$	\$
Reconciliation of Operating Profit and Income Tax		
Net profit /(loss)	2,306,243	5,096,934
Net (gain)/loss on financial instruments held at fair value through profit and loss	(932,899)	(3,978,973)
Proceeds from sale of financial instruments held at fair value through profit and loss	6,101,721	8,667,006
Purchases of financial instruments held at fair value through profit and loss	(4,710,516)	(9,002,368)
(Increase)/decrease in other receivables	(17,445)	109,325
Increase/(decrease) in other payables	(14,903)	23,937
Net cash provided by in Operating Activities	<u>2,732,201</u>	<u>915,861</u>

13(b). CASH FLOW INFORMATION (CONTINUED)

Reconciliation of Cash and cash equivalents to cash for the purposes of the Cashflow statement

	June 2011	June 2010
	\$	\$
Cash and cash equivalents as stated in the Statement of Financial Position	1,251,284	1,547,419
Cash and cash equivalents as stated in the Cashflow Statement	<u>1,251,284</u>	<u>1,547,419</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 2011. (30 June 2010: nil)

16. COMMITMENTS FOR EXPENDITURE

There were no commitments for expenditure at 30 June 2011. (30 June 2010: nil)

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

17. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No significant events have occurred since balance date which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2011 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 gearing ratios of the Fund, the ratio of debt to investment assets are as follows

	June 2011	June 2010
	\$	\$
Net unit holder funds	21,233,033	21,930,130
Total capital	<u>21,233,033</u>	<u>21,930,130</u>
Gearing ratio	0%	0%

19. EARNINGS PER UNIT

	June 2011	June 2010
	\$	\$
Net Profit used in calculations of basic earnings per unit	2,306,243	5,096,934
Weighted average number of units outstanding during the year used in the calculation of basic earnings per unit	3,206,023	3,404,110
Weighted average number of units outstanding during the year used in the calculation of diluted earnings per unit	3,206,023	3,404,110

DIRECTORS DECLARATION

In the opinion of the directors of the Responsible Entity:

- 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 2011 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 by the Director responsible for preparing these reports for the financial year ended 30 June 2011, as 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 of the Responsible Entity Elstree Investment Management Limited.



Campbell Dawson
Director
Sydney
31 August 2011



Chartered Accountants
& Business Advisers

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, which comprises the statement of financial position as at 30 June 2011, the statement of 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 Elstree Investment Management Limited, the Responsible Entity of Australian Enhanced Income Fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 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 entity'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 entity'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.

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2011 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 6 of the directors' report for the year ended 30 June 2011. The directors of Elstree Investment Management Limited, the Responsible Entity of Australian Enhanced Income Fund 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 2011 complies with section 300A of the *Corporations Act 2001*.

**PKF****Arthur Milner**
Partner

31 August 2011
Sydney

AUSTRALIAN ENHANCED INCOME FUND
ARSN 115 632 990
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Unit holder Information

Distribution

The following unit holder information was applicable as at 31 August 2011

Distribution of Holdings	%
1-1000	2.463
1,001 – 5,000	25.275
5,001 – 10,000	21.962
10,001 – 100,000	33.408
100,001 and greater	16.892
Total	100.000

Top 20 unitholders

The details of the top 20 unitholders as at 31 August 2011 are detailed below

COLLIER CHARITABLE FUND CUSTODIAN CORPORATION	204,700	6.648
INVIA CUSTODIAN PTY LIMITED <FOWLES FAMILY S/F A/C>	183,537	5.960
MR JAMES HODGKINSON & MRS CATHRYN HODGKINSON <POTSKI SUPER FUND A/C>	131,939	4.285
MR RUSSELL THOMAS HOWARD & MR IAN DAVID MACDOUGALL <RUSSELL HOWARD SUPER A/C>	45,000	1.461
MR MICHAEL COFFIN <BLUE SKY S/F A/C>	37,714	1.225
BOND STREET CUSTODIANS LIMITED <DSK - I36102 A/C>	36,772	1.194
PEMBERTON HOLDINGS PTY LTD <PEMBERTON SUPER FUND A/C>	30,000	0.974
TRUST COMPANY FIDUCIARY SERVICES LIMITED <WERRIBEE HOSP CHR NO2 69057>	30,000	0.974
MR MALCOLM JOHN MATTHEWS & MR PETER TIMOTHY HEINZ & MR SIMON JAMES COGHLAN <BECKWORTH A/C>	30,000	0.974
JAYTU PTY LTD <J W GARDNER SUPER FUND A/C>	30,000	0.974
BOND STREET CUSTODIANS LIMITED <HUNTGR - I31543 A/C>	29,000	0.942
MR MARK SHEFFIELD HANCOCK & BRIG IAN DENIS WESTWOOD <EST HARRY S HANCOCK A/C>	27,000	0.877
MRS MARITA TOOHER	24,439	0.794
SHANTEER PTY LTD <IAN JEFFREY SUPERFUND A/C>	24,084	0.782
MR CAMPBELL DAWSON <SPAGHETTI HEAD SUPER FUND AC>	22,979	0.746
BOND STREET CUSTODIANS LIMITED <DSK - RB0344 A/C>	22,542	0.732
MR RICHARD BROOKE BOOTHBY & MR DARVELL MARTIN HUTCHINSON <WILSON RESEARCH BEQUEST A/C>	22,542	0.732
MR ADRIAN GROSTATE A GROSTATE SUPER FUND A/C	22,202	0.721
BOND STREET CUSTODIANS LIMITED <DSSB - P67756 A/C>	21,042	0.683
MR PETER WILLIAM THORP & MRS CATHY-MAE THORP <THORP SUPER FUND A/C>	20,198	0.656

AUSTRALIAN ENHANCED INCOME FUND
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Substantial Holders

Unit Holder	No of units held	Percent
COLLIER CHARITABLE FUND CUSTODIAN CORPORATION	204,700	6.648
M F CUSTODIANS LTD	183,537	5.960

