

Australian Enhanced Income Fund
ARSN 115 632 990

Supplementary Product Disclosure Statement

This is a Supplementary Product Disclosure Statement intended to be read with the Product Disclosure Statement dated 27 July 2006 (**PDS**) relating to the offer of up to 7,500,000 Units with oversubscriptions of up to 2,500,000 Units to raise up to \$100,000,000.

This Supplementary PDS is dated 10 August 2006 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on 10 August 2006. None of ASIC, the ASX and their respective officers take responsibility for the contents of this Supplementary PDS.

Pursuant to Section 1014D of the Corporations Act, the information set out in this Supplementary PDS is taken to be included in the PDS. Terms defined in the PDS have the same meaning in this Supplementary PDS except where otherwise defined in this Supplementary PDS.

Overview of Changes

We have issued this Supplementary PDS to provide additional information on the Fund's minimum distributions.

You are urged to read this Supplementary PDS for details of this change.

Capitalised terms in this Supplementary PDS have the same meaning as in the PDS.

Important Information

This Supplementary PDS contains important information for you as a prospective investor in the Australian Enhanced Income Fund and requires your immediate attention.

It should be read in its entirety. If you have any questions as to its contents or the course you should follow, please consult your stockbroker, accountant, solicitor or other professional adviser immediately.

1. Distributions

1.1 Minimum Distribution Rate

The Fund will make a minimum distribution of 7% per annum payable on a quarterly basis. The Fund will return capital to the extent necessary to meet this minimum distribution if its earnings are less than this minimum distribution rate.

Elstree does not guarantee or provide any forecast as to the level of income that will be obtained from the investments or cash holdings of the Fund. To the extent available the minimum distribution rate will be paid from income of the Fund but if income earned is insufficient, the minimum distribution will be paid by returning capital to investors.

1.2 Basis for Minimum Distribution Rate

The basis for establishing the minimum distribution rate of 7% per annum is set out below.

(a) Yield on Hybrid Securities

The security yield to maturity on Hybrid Securities is typically higher than 7% per annum.

Realised returns may differ from the yield to maturity due to the timing of purchases and sales within the fund.

(b) Elstree Enhanced Income Fund

The Elstree Enhanced Income Fund's distributions over the past 3 financial years are as set out below:

	30 June 2004	30 June 2005	30 June 2006	Annualised since May 20, 2003
Return of the Elstree Enhanced Income Fund ¹	14.0%	9.8%	10.3%	12%
Fees associated with making investments on behalf of the Elstree Enhanced Income Fund ²	0.90%	0.90%	0.87%	0.89%
Amount available for distribution	13.1%	8.9%	9.4%	11.1%
Distribution	8.9%	7.1%	10.0%	9.4%

Past performance is not necessarily an indicator of future performance.

¹ The returns reflects the percentage changes in the value of the Elstree Enhanced Income Fund including distributions, re-invested distributions, interest, the value of franking credits and is calculated before fees. The source data from which the returns were calculated were drawn from the Elstree Enhanced Income Fund's audited financial statements.

² Fees include management fees being, 0.7% to 0.77% per annum, custodian & administration fees of up to 0.2% per annum.

(c) Elstree Enhanced Income Fund Returns and Fees

Elstree will employ the same investment processes and techniques it uses for the Elstree Enhanced Income Fund to manage the Australian Enhanced Income Fund.

It considers that the returns of the Elstree Enhanced Income Fund will be likely to be broadly comparable to the returns of the Australian Enhanced Income Fund. The main difference between the investment methodologies and processes for these funds is that the Australian Enhanced Income Fund may, at times, be leveraged. The Elstree Enhanced Income Fund is unleveraged. This may affect the return profiles of these funds.

The fee structures for the Elstree Enhanced Income Fund and the Australian Enhanced Income Fund are as follows:

The Australian Enhanced Income Fund has an investment management fee of 0.85% per annum (inclusive of GST) and a performance based management fee of 10% of the amount that the Total Holder Return exceeds the performance hurdle (after all fees and charges) respectively. The costs of operating the fund are met by the fund. See Section 6 for more details.

The Elstree Enhanced Income Fund currently has an investment management fee of 0.77% per annum (inclusive of GST) and no performance based management fee. All costs of operating the Elstree Enhanced Income Fund are met by the manager. Prior to 31/3/2006, the Elstree Enhanced Income Fund had an investment management fee of 0.70%, and an expense recovery fee of 0.20%.

Accordingly, Elstree believes that the distributions to be made by the Elstree Enhanced Income Fund are likely to be broadly comparable with the likely distributions to be made by the Australian Enhanced Income Fund. For further information about the risks that may influence returns from this investment please see page 19 of the PDS.

However, as stated above, in the event that the returns of the Elstree Enhanced Income Fund are not sufficient to enable the Elstree Enhanced Income Fund to make the minimum distribution, the Fund will return capital to the extent necessary to meet the minimum distribution payments.

1.3 Distribution funding

Distributions will be funded from the income received from its investments and cash holdings of the Fund. The Fund's portfolio of investments which comprise a range of high yield income and Hybrid Securities and other debt Securities issued by government bodies, companies and specialist financing vehicles, may be liquidated to provide cash.

Part of the distribution payments may contain returns of capital.

In all other respects the statements in the PDS are confirmed.