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**D**

**Request Number 8415650.**

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Name: LM FIRST MORTGAGE INCOME FUND

Org No: 089 343 288

**O**

<i>Document ID</i>	<i>No. of Pages</i>	<i>Date Lodged</i>
028382967	5	29/11/12

**C**

**I**

**M**

**A**

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**G**

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**E**

**Australian Securities & Investments Commission**

AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION



**028382967**

**Form 5111**  
Corporations Act 2001  
601HG(7)

# Compliance plan audit report of a registered scheme

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

**Scheme details**

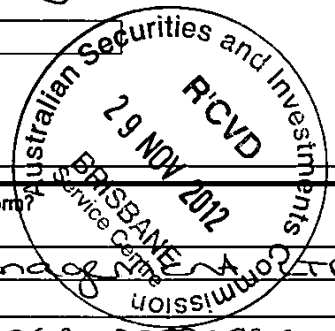
Scheme name

ARSN

Responsible entity name

ACN

Audit report for financial year ending  
  
[D] [D] [M] [M] [Y] [Y]



**Lodgement details**

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

Contact name/position description

ASIC registered agent number (if applicable)

Telephone number

Postal address or DX address

**1 Details of current compliance plan auditor**

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

Family name  Given name

or  
 Company name

ACN/ABN

or  
 Firm name (if applicable)

### 1 Continued... Details of current compliance plan auditor

Office, unit, level

Street number and Street name

Suburb/City

State/Territory

Postcode

### 2 Auditor report

Does the auditor's report (s601HG(3)) for the financial year contain a qualified opinion:

(a) that the responsible entity has not complied with the scheme's compliance plan during the financial year?

Yes  No

(b) that the compliance plan does not meet the requirements of Part 5C.4 of the *Corporations Act 2001*?

Yes  No

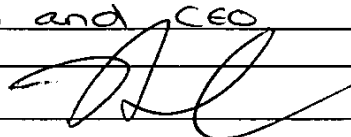
### Signature

I certify that the attached documents marked ( ) are a true copy of the audit report required under s601HG.

Name

Capacity

Signature



Date signed

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

### Lodgement

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

#### For more information

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## Independent Auditor's Compliance Plan Audit Report

To the Directors of LM Investment Management Limited:

I have audited the compliance plans ('plans') of the schemes listed in Appendix A ('the schemes') which were established by LM Investment Management Limited as the responsible entity for the schemes for the financial year ended 30 June 2012.

### Respective Responsibilities

As directors of the responsible entity you are responsible for the design, documentation, operation and monitoring of the compliance plans and the adequacy of compliance measures contained in the plans, including the relevant internal control systems, policies and procedures, and compliance therewith. These responsibilities are set out in Part 5C.2 of the *Corporations Act 2001*.

My responsibility is to express a conclusion on compliance with the compliance plans by LM Investment Management Limited and whether the compliance plans continue to meet the requirements of Part 5C.4 of the *Corporations Act 2001*. The audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 *Compliance Engagements*) to provide reasonable assurance regarding the compliance plans. Accordingly, I have performed such tests and procedures as I considered necessary in the circumstances. The procedures included obtaining an understanding of the compliance plans and the compliance measures which they contain and examining, on a test basis, evidence supporting the operation of these compliance measures. These procedures have been undertaken to form a conclusion whether, in all material respects, the responsible entity has complied with the compliance plans during the financial year ended 30 June 2012, and the compliance plans continue to meet the requirements of Part 5C.4 of the *Corporations Act 2001* as at that date.

### Use of Report

This compliance audit report has been prepared for LM Investment Management Limited as the responsible entity of the schemes listed in Appendix A in accordance with section 601HG of the *Corporations Act 2001*. I disclaim any assumption of responsibility for any reliance on this report to any person other than the responsible entity, or for any purpose other than that for which it was prepared.

### Inherent Limitations

Because of the inherent limitations of any compliance plan, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. An audit is not designed to detect all weaknesses in a compliance plan and the compliance measures in the plan as an audit is not performed continuously throughout the financial year and the audit procedures performed on the compliance plan and compliance measures are undertaken on a test basis.

Any projection of the evaluation of the compliance plan to future periods is subject to the risk that the compliance measures in the plan may become inadequate because of changes in conditions or circumstances, or that the degree of compliance with them may deteriorate.

### Independence

I am independent of the schemes listed in Appendix A and the responsible entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

The audit conclusion expressed in this report has been formed on the above basis.



### Qualification

My audit of the compliance plans of the schemes listed in Appendix A has identified instances of material non-compliance with measures in the compliance plans relating to the late lodgement of the financial statements of the schemes listed in Appendix A and the late completion of the related compliance plan audits of the schemes listed in Appendix A.

### Qualified Conclusion

In my opinion, except for the matters referred to in the qualification section, in all material respects:

- a. LM Investment Management Limited has complied with the compliance plans of the schemes listed in Appendix A for the financial year ended 30 June 2012; and
- b. the compliance plans continue to meet the requirements of Part 5C.4 of the *Corporations Act 2001* as at that date.

### Emphasis of Matter Regarding Material Uncertainty of Declared Distributions

During the period, the LM First Mortgage Income Fund ("the Scheme") declared distributions of \$16,904,211 to Class B unit holders, of which \$11,787,910 relates to the LM Currency Protected Australian Income Fund and the LM Institutional Currency Protected Australian Income Fund (schemes referred to as the "Feeder Funds"). These distributions were declared to enable the Feeder Funds to recognise distribution income to match expenses incurred. All Feeder Funds distributions have been reinvested back into the Scheme during the period. Compliance with the Trust Deed and Corporations Act in relation to these distributions is a matter of legal interpretation and the Responsible Entity believes it has an arguable position to support the declaration of these distributions as being fair and reasonable to all classes of unit holders. This is an area of significant judgement and accordingly, I bring it to your attention.

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Mike Reid'.

Mike Reid  
Partner

Brisbane

29 November 2012

**Appendix A**

	Scheme Name	ARSN	Audit Period	
			From	To
1.	LM First Mortgage Income Fund	089 343 288	1/07/2011	30/06/2012
2.	LM Currency Protected Australian Income Fund	110 247 875	1/07/2011	30/06/2012
3.	LM Institutional Currency Protected Australian Income Fund	122 052 868	1/07/2011	30/06/2012