

ASIC registered agent number

7051 15 July 2001 1/1

lodging party or agent name **STACEY HOGARTH**  
 office, level, building name or PO Box no. **PO BOX 10414**  
 street number & name  
 suburb/city **SOUTHPORT** state/territory **QLD** postcode **4215**  
 telephone **( 07 ) 5557 7700**  
 facsimile **( 07 ) 5557 8622**  
 DX number suburb/city



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Australian Securities &amp; Investments Commission

notification of

form **7051**

## • Half Yearly Reports

(ASX Form 1001)  
 Corporations Act 2001  
 285(2), 288(1), 320

(to be lodged within 75 days of the end of the accounting period)

### Disclosing entity

Please complete A, B or C.

#### A a company

name

A.C.N.

#### B a body (other than a company)

name

A.R.B.N. (if applicable)

#### C a registered scheme

name **MFS Premium Income Fund**A.R.S.N. **090 687 577**

RECEIVED

18 MAR 2008

ASIC  
SSC

### Financial period

from **1 / 7 / 07** to **31 / 12 / 07**

### Certification

*I certify that the attached documents comprise the half yearly reports together with every other document that is required to be lodged with the reports by a disclosing entity under the Corporations Act 2001.*

### Signature

This form is to be signed by:

if a company or a body a director or secretary or the equivalent

if a registered scheme a director or secretary of the responsible entity acting in that capacity

name of responsible entity **MFS INVESTMENT MANAGEMENT LIMITED**A.C.N. **101 634 146**name of person signing (print) **GRY HUTCHINGS**capacity **DIRECTOR**

sign here

date **18 / 3 / 2008**

Small Business (less than 20 employees), please provide an estimate of the time taken to complete this form

#### Include

- The time actually spent reading the instructions, working on the question and obtaining the information
- The time spent by all employees in collecting and providing this information

hrs

mins

# HALF YEARLY REPORTS

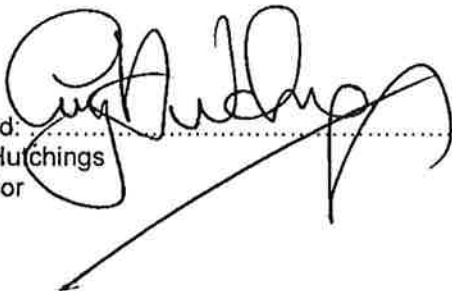
## **MFS Premium Income Fund**

ARSN 090 687 577

### **Interim report - for the half-year ended 31 December 2007**

This is Annexure A of 18 pages referred to in Form 7051 – Notification of Half Yearly Reports

Signed: \_\_\_\_\_  
Guy Hutchings  
Director

A handwritten signature in black ink, appearing to read 'Guy Hutchings', written over a dotted line.

Date: \_\_\_\_\_

18/3/08.

# MFS Premium Income Fund

ARSN 090 687 577

## Interim report - for the half-year ended 31 December 2007

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This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made in respect of MFS Premium Income Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This financial report covers MFS Premium Income Fund as an individual entity.

The Responsible Entity of MFS Premium Income Fund is MFS Investment Management Limited (ABN20 101 63 146). The Responsible Entity's registered office is 5 Hicks Street, Southport, QLD, 4215.

## Directors' report

The directors of MFS Investment Management Limited (MFSIM), the Responsible Entity of MFS Premium Income Fund ('the Trust'), present their report together with the financial report of MFS Premium Income Fund for the half year ended 31 December 2007.

### Directors

The following persons held office as directors of MFSIM during the half-year or since the end of the half-year and up to the date of this report:

Craig White  
John Whateley  
Jack Diamond  
Guy Hutchings  
Steve Kyling (Resigned 26 September 2007)  
Stuart Price (Resigned 26 September 2007)  
Deborah Beale (Resigned 18 February 2008)

### Review and results of operations

During the half-year, the Trust continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

The Trust offered investors a variety of investment terms ranging from 6 months to 24 months as detailed in the Product Disclosure Statement dated 2 July 07 (Part A and Part B). Consistent with all prior periods, the Trust did not have any employees during the period.

The interim financial report has been prepared on a going concern basis.

However, in reviewing the report, we draw your attention to the following.

During the period to 31 December 2007 the Trust utilised a \$200m cash advance facility with an external lender. As set out in Note 7 and Note 9 at 31 December 2007 one of the ratio covenants was breached, and as a result, this facility became repayable on demand.

Negotiations with the lender have resulted in an agreement with the lender to 31 March 2008 to suspend their rights to take action as a result of the breach of the ratio covenant. The lender is conducting a review of its position and MFSIM is assisting and cooperating in this regard. MFSIM is seeking further discussion with the lender before 31 March 2008 in relation to the continuation of this extension arrangement. Any extension of the arrangement remains at the discretion of the lender and is therefore uncertain and no such agreement has yet been reached.

Further, recent events faced by MFS Limited, which is currently suspended from the ASX, has resulted in a significant increase in the number of investors in the Trust seeking to redeem their funds. As set out in Note 9, the suspension of MFS Limited from the ASX has also impacted other MFS Limited related entities, resulting in material uncertainty in relation to the recoverability of the Trust's credit and equity exposure to these entities.

As such, there is material uncertainty as to whether the Trust can continue as a going concern.

In the opinion of the Responsible Entity, and subject to the above, there were no other significant changes in the state of affairs of the Trust that occurred during the half-year.

## Directors' report (continued)

The results of the Trust's operations and performance for the half-year were as follows:

	Half-year ended	
	31 December 2007 \$'000	31 December 2006 \$'000
<b>Operating results</b>		
Net operating profit before financing costs attributable to unitholders	<u>23,639</u>	<u>32,250</u>
Distribution paid and payable	<u>34,530</u>	<u>32,250</u>

As per the Product Disclosure Statement, MFSIM issue and withdraw units at \$1.00 per unit unless MFSIM consider this does not accurately reflect the value of a unit. Subsequent to the reporting date, there is material uncertainty in relation to the recoverability of the Trust's credit and equity exposure to MFS Limited related entities and this may impact on the ability of the Trust to pay withdrawals at \$1.00 per unit (refer to Note 1, 2, 3 and 9).

### Rounding of amounts to the nearest thousand dollars

The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Guy Hutchings  
Director

Sydney  
18 March 2008



PricewaterhouseCoopers  
ABN 52 780 433 757

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## Auditor's Independence Declaration

As lead auditor for the review of the MFS Premium Income Fund for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of the MFS Premium Income Fund during the half-year.

A handwritten signature in black ink, appearing to read 'Timothy J Allmen'.

Timothy J Allmen  
Partner  
PricewaterhouseCoopers

Brisbane  
18 March 2008

**MFS Premium Income Fund**  
**Income statement**  
**For the half-year ended 31 December 2007**

**Income statement**

		<b>Half-year ended</b>	
		<b>31 December</b>	<b>31 December</b>
		<b>2007</b>	<b>2006</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Investment income</b>			
Interest income		38,339	29,141
Net gains/(losses) on financial instruments held at fair value through profit or loss		-	46
Loan and other fees		21	32
Net change in the fair value of investments		(15,603)	1,771
Investment income		<u>4,497</u>	<u>9,310</u>
Total investment income/(loss)		<u>27,254</u>	<u>40,300</u>
<b>Expenses</b>			
Responsible entity's fees	12	-	6,146
Custodian and registry fees		675	582
Fees and commission expense		43	262
Auditor's remuneration		12	35
Finance costs (excluding distributions)		1,364	507
Consulting, compliance and legal fees		206	518
Provision for doubtful debt		500	-
Other costs		<u>815</u>	<u>-</u>
Total operating expenses		<u>3,615</u>	<u>8,050</u>
Net operating profit before finance costs and income tax expense		<u>23,639</u>	<u>32,250</u>
<b>Finance costs attributable to unitholders</b>			
Distributions	3	(34,530)	(32,250)
(Increase)/decrease in net assets attributable to unitholders	2	<u>10,891</u>	<u>-</u>
Net profit for the half-year		<u>-</u>	<u>-</u>

The above income statement should be read in conjunction with the accompanying notes.

**MFS Premium Income Fund**  
**Balance sheet**  
**As at 31 December 2007**

**Balance sheet**

		As at	
		31 December	30 June
	Notes	2007	2007
		\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents		15,880	132,052
Other financial assets	5	307,422	167,672
Receivables	12	13,653	8,988
Financial assets held at fair value through profit or loss	4	277,865	305,729
Mortgage Loans	6	350,665	271,571
Other assets		1,160	653
<b>Total assets</b>		<u>966,645</u>	<u>886,665</u>
<b>Liabilities</b>			
Distributions payable	3	5,641	5,751
Payables		855	822
Borrowings	7	200,000	-
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>206,496</u>	<u>6,573</u>
<b>Net assets attributable to unitholders - liability</b>	2	<u>760,149</u>	<u>880,091</u>
<b>Represented by:</b>			
Total net assets attributable to unitholders		<u>760,149</u>	<u>880,091</u>
		<u>760,149</u>	<u>880,091</u>

The above balance sheet should be read in conjunction with the accompanying notes.

**Statement of changes in equity**

In accordance with AASB132 *Financial Instruments: Disclosure and Presentation*, unitholders' funds are classified as a liability and accordingly the Trust has no equity for financial statement purposes.



**MFS Premium Income Fund**  
**Cash flow statement**  
**For the half-year ended 31 December 2007**

**Cash flow statement**

	Half-year ended	
	31 December 2007 \$'000	31 December 2006 \$'000
<b><i>Cash flows from operating activities</i></b>		
Interest, fees and investment income received	17,270	24,795
Other cash payments in the course of business	<u>(9,470)</u>	<u>(6,141)</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<u>7,800</u>	<u>18,654</u>
<b><i>Cash flows from investing activities</i></b>		
Mortgage loan advances	(145,419)	(151,202)
Mortgage loan repayments	83,248	117,231
Purchase of investments in managed investment schemes	(98,690)	(17,514)
Redemption of investments in managed investment schemes	120,767	25,088
Fixed interest securities purchased	(9,000)	(11,737)
Fixed interest securities redeemed	-	17,403
Other investments purchased	(234,957)	(113,377)
Other investments repaid	<u>103,769</u>	<u>82,099</u>
<b>Net cash inflow/(outflow) from investing activities</b>	<u>(180,282)</u>	<u>(52,009)</u>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from applications by unitholders	90,326	268,759
Payments for redemptions to unitholders	(210,398)	(153,895)
Distributions paid	(23,619)	(31,015)
Net proceeds from borrowings	<u>200,000</u>	<u>33,796</u>
<b>Net cash inflow/(outflow) from financing activities</b>	<u>56,309</u>	<u>117,645</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	(116,173)	84,290
Cash and cash equivalents at beginning of the period	<u>132,053</u>	<u>48,974</u>
<b>Cash and cash equivalents at the end of the half-year</b>	<u>15,880</u>	<u>133,264</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

**MFS Premium Income Fund**  
**Notes to the financial statements**  
**31 December 2007**

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## 1 Basis of preparation of interim report

### a) Basis of preparation of interim report

This general purpose financial report for the interim half-year ended 31 December 2007 has been prepared in accordance with *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made in respect of MFS Premium Income Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

### b) Going concern

The interim financial report has been prepared on a going concern basis.

In determining this basis for preparation of the interim financial report, the directors have regarded the following in its assessment:

During the period to 31 December 2007 the Trust utilised a \$200m cash advance facility with an external lender. As set out in Note 7 and Note 9 at 31 December 2007 one of the ratio covenants was breached, and as a result, this facility became repayable on demand.

Negotiations with the lender have resulted in a standstill agreement with the lender to 31 March 2008 to suspend their rights to take action as a result of the breach of the ratio covenant. The lender is conducting a review of its position and MFSIM is assisting and cooperating in this regard. MFSIM is seeking further discussion with the lender before 31 March 2008 in relation to the continuation of this extension arrangement.

Further, recent events faced by MFS Limited, which is currently suspended from the ASX, has resulted in a significant increase in the number of investors in the Trust seeking to redeem their funds. As set out in Note 9, the suspension of MFS Limited from the ASX has also impacted other MFS Limited related entities, resulting in material uncertainty in relation to the recoverability of the Trust's credit and equity exposure to these entities.

As such, there is material uncertainty as to whether the Trust can continue as a going concern.

However, after taking into account all available information, the directors have concluded that, subject to the next sentence, there are reasonable grounds to believe the Trust will be able to pay its debts as and when they become due and payable and the basis of preparation of the interim financial report on a on going basis is appropriate. This conclusion is, however, dependent on the external lender agreeing to an extension of the standstill agreement referred to above.

- i. The Trust's net asset position as at 31 December 2007;
- ii. The underlying performance of the Trust assets;
- iii. MFSIM is and will continue to pursue legal and other avenues to protect unit holder interests in credit and equity assets which are related to MFS Limited;
- iv. The Trust has deferred processing and payments of withdrawal requests on 29 January 2008 received for up to 180 days. As per the Product Disclosure Statement, the Fund's constitution also allows for this 180 day period to be extended to 360 days in certain limited circumstances including where MFSIM believes the Fund has insufficient available cash reserves to pay all redemptions on the appropriate date and all actual and contingent liabilities of the Fund on their due dates;
- v. Whilst an extension of the arrangement remains at the discretion of the lender and is therefore uncertain, the lender has not indicated that it will immediately call up the loan after 31 March 2008 or would refuse to agree an extension of the standstill agreement. MFSIM (with the assistance of external advisers) will be submitting a proposal for an extension to allow an orderly realisation of assets to repay the external lender or a refinance of that debt. If an extension is granted, subject to the monitoring and approval of the external lender, it is expected that the cashflow of the Trust will be sufficient to meet operating requirements. The directors hold a reasonable expectation that a satisfactory outcome can be achieved.

The interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the classification of liabilities that might be necessary should the Trust not continue as a going concern.

MFS Premium Income Fund  
Notes to the financial statements  
31 December 2007  
(continued)

## 2 Net assets attributable to unitholders

As explained in note 1, on the 29 January 2008 the Board of MFSIM resolved to defer the processing and payment of redemptions for up to 180 days whilst cash available to meet the redemptions is substantially increased. As at 13 March 2008 redemptions of 177,038,186 units.

Movements in number of units and net assets attributable to unitholders during the half-year were as follows:

	31 December 2007 No. '000 Liability	30 June 2007 No. '000 Liability	As at 31 December 2007 \$'000 Liability	30 June 2007 \$'000 Liability
Opening balance	880,091	704,795	880,091	704,795
Net assets attributable to unitholders				
Redemptions	(210,398)	(341,129)	(210,398)	(341,129)
Transfer of net undistributed income/(loss) to/from the income statement	-	-	(10,891)	-
Applications - Cash	90,326	493,890	90,326	493,890
Applications - Reinvestments	11,021	22,535	11,021	22,535
Closing balance	771,040	880,091	760,149	880,091

If there are insufficient funds available to pay distributions, withdrawals and expenses then MFSIM may temporarily adjust distributions, issue prices and withdrawal prices to meet this shortfall. If this happens, MFSIM would calculate the value of a unit as the net value of the Fund's property divided by the number of units on issue.

As per the Product Disclosure Statement, MFSIM issue and withdraw units at \$1.00 per unit unless MFSIM consider this does not accurately reflect the value of a unit. As noted in Note 1, there is material uncertainty in relation to the recoverability of the Trust's credit and equity exposure to MFS Limited related entities and this may impact on the ability of the Trust to pay withdrawals at \$1.00 per unit.

As noted in Note 1, the Trust has deferred payments of withdrawal requests received for up to 180 days whilst cash available to meet the redemptions is substantially increased. As per the Product Disclosure Statement, the Fund's constitution also allows for this 180 day period to be extended to 360 days in certain limited circumstances including where MFSIM believes the Fund has insufficient available cash reserves to pay all redemptions on the appropriate date and all actual and contingent liabilities of the Fund on their due dates;

**MFS Premium Income Fund**  
**Notes to the financial statements**  
**31 December 2007**  
**(continued)**

### 3 Distributions to unitholders

	<b>Half-year ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Distributions paid/payable	<u>34,530</u>	<u>32,250</u>

MFSIM has a contractual arrangement with MFS Limited (the "MFS Support Facility") whereby it can call upon funds from MFS Limited in the event the Trust does not earn sufficient income to meet distributions to investors at the Target Rates of Return. On 26 February 2008, MFSIM exercised its rights and called upon these funds (refer Note 11).

If the Trust is unable to access funds under the MFS Support Facility or to realise assets at their carrying amount, this may result in MFSIM reducing or ceasing distributions and may also affect the redemption value of units in the Trust (refer to Note 11).

With effect 10 March 2008, the Trust has ceased payments of distributions to unit holders until further notice.

### 4 Financial assets held at fair value through profit or loss

	<b>As at</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2007</b>	<b>2007</b>
	<b>Fair value</b>	<b>Fair value</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Unrelated entities</b>		
Equity securities	38,135	151,454
Fixed interest securities	<u>111,034</u>	<u>108,556</u>
	<u>149,169</u>	<u>260,010</u>
<b>Related entities</b>		
Equity securities	<u>128,696</u>	<u>45,719</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>277,865</u>	<u>305,729</u>

Included in the related entities – equity securities are investments in the following related entities

	<b>Note</b>	<b>\$ '000</b>
MFS Living and Leisure Group	a	\$ 5,906
MFS Diversified Group	b	\$ 34,469
MFS Blue-sky Development Trust	c	\$ 2,265
MFS Property Trust No.7	d	\$ 1,056
MFS Maximum Yield Fund	e	\$ 85,000

- (a) On 21 January 2008, MFS Living and Leisure Group (ASX code MPY) was voluntarily suspended from trading with the ASX. The quoted market price of \$0.695 at 31 December 2007 was used to determine the fair value of this investment. The last trading price prior to suspension was \$0.36. Refer to Note 9.
- (b) On 27 February 2008, MFS Diversified Group (ASX code MFT) was voluntarily suspended from trading with the ASX. The quoted market price of \$0.86 at 31 December 2007 was used to determine the fair value of this investment. The last trading price prior to suspension was \$0.475. Refer to Note 9.
- (c) MFS Blue-sky Development Trust was valued at NTA of \$0.9059 per unit at 31/12/07. NTA at 29/02/08 is \$0.8036.
- (d) MFS Property Trust No.7 was valued at NTA of \$3,300 per unit at 31 December 2007. NTA at 31 January 2008 is \$3,130.06.
- (e) The Trust's unit holding in the Maximum Yield Fund (MYF) is valued at \$1.00 per unit as per the Information Memorandum dated 23 November 2007. Refer to Note 9.

**MFS Premium Income Fund**  
**Notes to the financial statements**  
**31 December 2007**  
**(continued)**

## 5 Other financial assets

	As at	
	31 December	30 June
	2007	2007
	\$'000	\$'000
Asset backed investments	203,167	144,672
Asset backed investments with related parties	104,255	23,000
	<u>307,422</u>	<u>167,672</u>

Asset backed investments with related parties of MFS Premium Income fund are those below:

		\$ '000
MFS Living and Leisure Group	a	57,489
MFS Pacific Finance Ltd	b	23,586
MFS Causeway Private Debt Opportunities Fund	c	23,180

- (a) During the period to 31 December 2007, unsecured loan facilities totalling \$67m were in place with MFS Living and Leisure. As at 31 December 2007, almost \$58m (June 07: \$Nil) of the facility was drawn down and were due for repayment on 31 March 2008. As at the date of this report, the full \$67m of the loan facilities has been drawn down.

In February 2008, the maturity of the loan facilities was extended to 30 May 2008 while MFS Living and Leisure Group actively seek to sell assets sufficient to repay all lenders, including the Trust. As in Note 4 and Note 9, both MFS Limited and MFS Living and Leisure Group are suspended from the ASX.

- (b) The Trust has a \$23m (June 2007: \$23m) investment in interest bearing unsecured notes from MFS Pacific Finance, which is due to mature on 31 March 2008. Purchase of the notes on the maturity date is expected as a result of a call on the MFS Support Facility (refer to Note 11), which was made in February 2008.
- (c) On 21 May 2007, the Trust provided MFS Causeway Private Debt Opportunities Fund with a loan facility of \$50m. As at 31st December 2007 this has been drawn down to \$23m (June 07: \$Nil). The facility is secured by a fixed and floating charge over the MFS Causeway Private Debt Opportunities Fund assets. The loan facility is expected to be fully repaid by July 2008.

Within the Asset Backed Investments sector, the Trust entered into a participation agreement with MFS Pacific Finance on 30 November 2007, whereby the Trust would participate in loans originated by MFS Pacific Finance by up to \$62.5M (June 2007: \$Nil). The participation agreement covers six (6) corporate loans with varying maturities, the longest of which matures on 2 October 2009.

## 6 Mortgage Loans

Mortgage loans are secured by registered mortgages. The recoverability of mortgage loans is supported by valuations completed by registered valuers for mortgage security purposes and loan to valuation ratios not exceeding 66.67%.

As at 31 December 2007, there were 3 loans past due for repayment (June 2007: 5 loans) with a total principle balance of \$17,199,747 (June 2007: \$35,415,017). A provision of \$500,000 has been made against the amount outstanding and is included in the provision for doubtful debt.

Subject to MFSIM operating within the lending policy stipulated in the insurance policy, Underwriters, Lloyd's of London, have indemnified MFSIM and the Trust should the proceeds of a forced sale of mortgaged property impair the repayment of the mortgage. The maximum loss covered by the policy is 75% of each mortgage principle amount insured or \$3,000,000 whichever is the lesser.

**MFS Premium Income Fund**  
**Notes to the financial statements**  
**31 December 2007**  
**(continued)**

## 7 Borrowings

	As at	
	31 December	30 June
	2007	2007
	\$'000	\$'000
Interest bearing liabilities	<u>200,000</u>	-

As at 31 December 2007, the Trust had interest bearing liabilities totalling \$200 million (June 2007: Nil), being a loan secured by assets of the Trust. This loan facility was in breach of a ratio covenant at 31 December 2007 and as such is repayable on demand in accordance with the facility agreement.

Interest on borrowings accrues at the bank bill swap rate plus a 0.6% margin when the facility is within its covenants. During the period that the facility is in breach, the Trust accrues an additional 2.0% margin of interest on borrowings as penalties.

During the period to 31 December 2007 the Trust utilised a \$200m cash advance facility with an external lender. At 31 December 2007 one of the ratio covenants was breached, and as a result, this facility became repayable on demand.

Negotiations with the lender have resulted in an agreement with the lender to 31 March 2008 to suspend their rights to take action as a result of the breach of the ratio covenant. The lender is conducting a review of its position and MFSIM is assisting and cooperating in this regard. MFSIM is seeking further discussion with the lender will occur before the 31 March 2008 in relation to the continuation of this extension arrangement. Any extension of the arrangement remains at the discretion of the lender and is therefore uncertain, and no such agreement has yet been reached.

## 8 Segment information

The Trust is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Trust's financial statements.

While the Trust operates from Australia only (the geographical segment), the Trust may have investment exposures in different countries and across different industries.

## 9 Events occurring after the balance sheet date

### Responsible Entity

MFS Investment Management Limited (MFSIM), the responsible entity of the Trust, is a wholly owned subsidiary of MFS Limited. The current suspension of MFS Limited does not directly impact the quality of investments made by the Trust, however the association between MFS Limited and MFSIM has resulted in a significant number of investors seeking to immediately withdraw their funds.

### Redemptions

On the 29 January 2008, the Board of MFSIM decided to defer the processing and payment of withdrawal requests for up to 180 days. There is uncertainty as to the specific date for MFSIM to recommence the processing and payments of redemptions during this period.

As per the Product Disclosure Statement, the Fund's constitution also allows for this 180 day period to be extended to 360 days in certain limited circumstances including where MFSIM believes the Fund has insufficient available cash reserves to pay all redemptions on the appropriate date and all actual and contingent liabilities of the Fund on their due dates.

## 9 Events occurring after the balance sheet date (continued)

### Related party exposures

As identified in Notes 4 and 5, the Trust has equity and credit exposure to other managed investment schemes where the Responsible Entity is a wholly owned subsidiary of MFS Limited. As a result of the continued market situation impacting MFS Limited, there is material uncertainty over the value at which these equity and credit exposures will be realised.

As identified in Note 11, the Trust has a contractual arrangement with MFS Limited called the "MFS Support Facility", pursuant to which MFS Limited has agreed to provide up to \$50m in callable funds to meet any shortfall in the target distributions of the Trust and meet any Trust expense. Given the circumstances surrounding MFS Limited, there is uncertainty over MFS Limited's ability and/or timing to meet its contractual commitments under this facility.

### Interest bearing liabilities

As identified in Note 7, the Trust had a liability of an interest bearing loan totalling \$200 million as at 31 December 2007. This loan facility is in breach of a ratio covenant as at 31 December 2007 and as such became repayable on demand in accordance with the cash facility agreement.

As at 13 March 2008, the outstanding amount of the loan facility was \$184 million. As per Note 1, an agreement has been reached with the lender to 31 March 2008 to suspend their rights to take action as a result of the breach of the ratio covenant.

Negotiations with the lender resulted in an agreement with the lender to 31 March 2008 to suspend their rights to take action as a result of the breach of the ratio covenant. The lender is conducting a review of its position and MFSIM is assisting and cooperating in this regard. MFSIM is seeking further discussion with the lender before 31 March 2008 in relation to the continuation of this extension arrangement. Any extension of the arrangement remains at the discretion of the lender and is therefore uncertain and no such agreement has yet been reached.

## 10 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2007 and 30 June 2007 other than the MFS Support Facility (refer to Note 11).

## 11 MFS Support Facility

On the 26 February 2008 the Trust exercised its rights under the MFS Support Mechanism with MFS Limited to call funds to ensure that the fund can: a) meet any shortfall in the target distribution of the fund; and b) meet any fund expenses. Option Notices under the MFS Support Facility totalling \$50 million have been issued. At this stage, MFS Limited has not yet advised which date/s the Option Notices will be paid to PIF. However, MFSIM Directors assess the likelihood of payment of the full \$50 million to be high (refer to Note 9.)

## 12 Responsible Entity fees

MFSIM is only entitled to a management fee after all current distributions, expenses and redemptions of the Trust have been satisfied.

The MFSIM management fee for the period was forgone in the period to 31 December 2007 due to the payment of distributions to unit holders exceeding the net profit of the Trust. Included in receivables is \$5.5m (June 2007: \$Nil) of management fees paid in advance.



MFS Premium Income Fund  
Directors' declaration  
31 December 2007

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) subject to paragraph (c), giving a true and fair view of the Trust's financial position as at 31 December 2007 and of its performance, for the half-year ended on that date;
- (b) subject to paragraph (c), there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;
- (c) the ability of the Trust to pay its debts as and when they are due and payable, and to continue as a going concern, is dependent on the agreement of the external lender to extend the terms of the standstill agreement referred to in notes 7 and 9 above to allow a realisation of assets in an orderly manner to repay the external lender, or refinance that debt.

This declaration is made in accordance with a resolution of the directors.



Guy Hutchings  
Director

Sydney  
18 March 2008



## **INDEPENDENT AUDITOR'S REVIEW REPORT to the unit holders of the MFS Premium Income Fund**

**PricewaterhouseCoopers**  
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### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of the MFS Premium Income Fund, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the MFS Premium Income Fund (the registered scheme).

### ***Directors' Responsibility for the Half-Year Financial Report***

The directors of MFS Investment Management Limited (the responsible entity) are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the registered scheme's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the MFS Premium Income Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.



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

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the MFS Premium Income Fund is not in accordance with the *Corporations Act 2001* including:

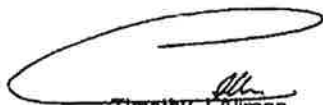
- (a) giving a true and fair view of the registered scheme's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*Material Uncertainty – Going Concern and carrying value of assets*

Without qualification to the above conclusion, we draw attention to note 1 in the financial report which indicates that, as a result of a breach of a loan covenant, Interest Bearing Liabilities of \$200 million have become repayable on demand as at 31 December 2007. In addition we draw attention to note 9 in the financial report, which indicates that there is significant uncertainty as a result of events subsequent to the balance date concerning the recoverability of equity securities and asset backed investments with related parties. Notes 4 and 5 provide further details of these exposures. These conditions along with other matters as set forth in note 1 indicate there is significant uncertainty whether the registered scheme will continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

  
Timothy J Alliman  
Partner

Brisbane  
18 March 2008