# MFS Premium Income Fund

ARSN 090 687 577

# Annual report - 30 June 2007

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## Contents



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

The responsible entity of MFS Premium Income Fund is MFS Investment Mangement Limited (ABN 72 616 491 424). The responsible entity's registered office is MFS House, 5 Hicks Street, Southport, Queensland 4215.

## Directors' report

The directors of MFS Investment Mangement Limited (a wholly owned subsidiary of MFS Limited), the responsible entity of MFS Premium Income Fund, present their report together with the financial report of MFS Premium Income Fund ("the Trust"), for the year ended 30 June 2007.

### Responsible entity

The responsible entity of MFS Premium Income Fund is MFS Investment Mangement Limited.

### Principal activities

The Trust is a registered managed investment scheme domiciled in Australia.

The entity's principal activity for the year was the receipt of unitholders' funds and investment of unitholders' funds in equity, debt instruments, cash and registered mortgages.

The entity did not have any employees during the year.

There were no significant changes in the nature of the entity's activities during the year.

### Directors

The following persons held office as directors of MFS Investment Mangement Limited during the year or since the end of the year and up to the date of this report:

Guy Hutchings (Appointed 23 May 2007)
Craig White (Appointed 31 August 2005)
Deborah Beale (Appointed 27 January 2007)
John Whateley (Appointed 27 February 2007)
Jack Diamond (Appointed 27 February 2007)
Stuart Price (Appointed 27 February 2007)
Steve Kyling (Appointed 27 February 2007)
Paul Manka (Resigned 27 February 2007)
Michael King (Resigned 27 February 2007)
Michael Hiscock (Resigned 27 February 2007)

The registered office of MFS Investment Management Limited and the Trust is MFS House, 5 Hicks Street, Southport, Queensland 4215.

## Directors' report (continued)

### Review and results of operations

During the 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.

*Results*

The performance of the Trust, as represented by the results of its operations, was as follows:

| | Year ended 30 June 2007 $'000 | Year ended 30 June 2006 $'000 |
|---|---|---|
| Net operating profit/(loss) before financing costs attributable to unitholders | 66,907 | 53,804 |
| *Distributions* | | |
| Distribution paid and payable ($'000) | 66,907 | 53,804 |
| Distribution (cents per unit) | 8.33 | 8.41 |

### Unitholders' funds

The Trust issued 516,425,538 units during the financial year (2006: 465,784,843) while 341,129,490 units were redeemed (2006: 296,125,422), resulting in a balance of 880,091,152 units on issue as at 30 June 2007 (2006: 704,795,104).

The Trust had total assets valued at $886,664,215 as at 30 June 2007 (2006: $711,587,387). The basis for valuation of the Entity's assets is disclosed in Note 1 to the financial statements.

### Significant changes in state of affairs

The Trust continued to invest primarily in equity, debt instruments and mortgage loans during the year ended 30 June 2007, and continues to offer investors a diversified investment profile and a variety of investment terms ranging from 6 months to 24 months.

The asset allocation of the Trust as at 30 June 2007 was as follows:

| | |
|---|---|
| Mortgage Loans | 31% |
| Managed Investment Schemes | 22% |
| Alternative Investments | 20% |
| Cash Investments | 15% |
| Fixed Interest Investments | 12% |

In June 2007, the Trust acquired the assets of MFS Optimiser One and redeemed its equity and debt units held in MFS Optimiser One.

In the opinion of the Responsible Entity there were no other significant changes in the state of affairs of the Trust that occurred during the financial year.

## Directors' report (continued)

### Interests of the Responsible Entity

The number of interests in the Trust held by the responsible entity or its associates as at the end of the financial year are disclosed in Note17 of the financial statements.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

(i) the operations of the Trust in future financial years, or
(ii) the results of those operations in future financial years, or
(iii) the state of affairs of the Trust in future financial years.

### Likely developments and expected results of operations

The Responsible Entity does not propose any changes to the existing business of the Trust.

The Trust will pursue a policy of maintaining returns through selective investment decision making.

Further information on likely developments in the operations of the Trust 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 Trust.

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of MFS Investment Mangement Limited or the auditors of the Trust. So long as the officers of MFS Investment Mangement Limited act in accordance with the Trust Constitution and the Law, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

### Responsible Entity's remuneration

On 23 June 2006 unitholders voted in favour of an amendment to the Constitution regarding the remuneration structure of the Responsible Entity, MFS Investment Management Limited. Up to the date of change the Trust was required to pay a management fee of 1% per annum (plus GST) of the total assets of the fund.

Under the new remuneration structure, MFS Investment Management Limited is entitled to receive, all surplus funds generated by the Trust only after all current distribution, redemption and expense obligations have been satisfied at the end of each month.

The following fees were paid or payable to the Responsible Entity and its associates during the financial year

| | 2007 | 2006 |
|---|---|---|
| | $ | $ |
| Management fees for the year paid directly to the Responsible Entity | 16,091,892 | 7,773,534 |
| Other expenses included administration expenses incurred by the Responsible Entity, which are reimbursed to the Responsible Entity or associated entities in accordance with the provisions of the Constitution. | 821,250* | 3,231,695 |

* Following the introduction of the new management fee structure on 23 June 2006 ( i.e. surplus after all trust expenses, distributions and redemptions obligations are met) there is a reduction in the value of the Trust expenses paid and reimbursed to the Responsible Entity this year due to these fees being funded by the management fee.

It is important to note that the overall cost of operating the Trust (i.e. total trust expenses, including insurance and management fees) for the year was 2.46% (2006, 2.35%) - based on weighted average unit holder value).

## Directors' report (continued)

### Environmental regulation

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

### Rounding of amounts to the nearest thousand dollars

The Trust is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities & 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 6.

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

Director

Sydney
14 September 2007

PRICEWATERHOUSECOOPERS

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## Auditor's Independence Declaration

As lead auditor for the audit of the MFS Premium Income Fund for the year ended 30 June 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 audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the MFS Premium Income Fund.

Timothy J Allman
Partner
PricewaterhouseCoopers

Brisbane
14 September 2007

## Income statement

| | Notes | Year ended 30 June 2007 $'000 | 30 June 2006 $'000 |
|---|---|---|---|
| ***Investment income*** | | | |
| Interest income | 3 | **62,341** | 51,282 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 4 | **7,283** | 3,318 |
| Loan and other fees | 6 | **65** | 750 |
| Investment income | 5 | **16,905** | 13,457 |
| **Total investment income/(loss)** | | **86,594** | 68,807 |
| ***Expenses*** | | | |
| Responsible entity's fees | 17 | **16,092** | 7,774 |
| Custodian and registry fees | | **1,266** | 1,107 |
| Fees and commission expense | | **197** | 1,324 |
| Auditor's remuneration | 7 | **45** | 29 |
| Finance costs (excluding distributions) | | **1,387** | 3 |
| Consulting, compliance accounting and legal fees | | **700** | 1,632 |
| Insurance | | **-** | 1,350 |
| Advertising and marketing | | **-** | 1,784 |
| **Total operating expenses** | | **19,687** | 15,003 |
| **Net operating profit/(loss)** | | **66,907** | 53,804 |
| ***Financing costs attributable to unitholders*** | | | |
| Distributions to unitholders | 9 | **(66,907)** | (53,804) |
| **Net profit/(loss) for the year** | | **-** | - |

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

## Balance sheet

| | Notes | As at 30 June 2007 $'000 | 30 June 2006 $'000 |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and cash equivalents | | **132,052** | 48,974 |
| Other financial assets | 10 | **176,020** | 103,778 |
| Receivables | 14 | **8,988** | 2,587 |
| Financial assets held at fair value through profit or loss | 11 | **297,380** | 228,477 |
| Mortgage loans | 13 | **271,571** | 327,771 |
| Other assets | | **653** | - |
| **Total assets** | | **886,664** | 711,587 |
| ***Liabilities*** | | | |
| Distributions payable | 9 | **5,751** | 4,607 |
| Payables | 15 | **822** | 2,185 |
| **Total liabilities (excluding net assets attributable to unitholders)** | | **6,573** | 6,792 |
| **Net assets attributable to unitholders - liability** | 8 | **880,091** | 704,795 |
| ***Represented by:*** | | | |
| Total net assets attributable to unitholders | | **880,091** | 704,795 |
| | | **880,091** | 704,795 |

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.

Movements in unitholder funds are disclosed in note 8 to the accounts.

## Cash flow statement

| | Notes | Year ended 30 June 2007 $'000 | 30 June 2006 $'000 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Interest, fees and investment income received | | **51,742** | 44,423 |
| Other cash payments in the course of business | | **(22,102)** | (16,464) |
| **Net cash inflow/(outflow) from operating activities** | 18(a) | **29,640** | 27,959 |
| ***Cash flows from Investing activities*** | | | |
| Mortgage loan advances | | **(226,607)** | (195,584) |
| Mortgage loan repayments | | **266,712** | 161,263 |
| Purchase of investments in managed investment schemes | | **(64,101)** | (165,210) |
| Redemptions of investments in managed investment schemes | | **78,459** | 61,768 |
| Fixed interest securities purchased | | **(203,822)** | (53,573) |
| Fixed interest securities redeemed | | **133,329** | 26,173 |
| Promissory and unsecured notes purchased | | **-** | (27,295) |
| Promissory and unsecured notes redeemed | | **-** | 44,295 |
| Other investments purchased | | **(204,917)** | (65,282) |
| Other investments repaid | | **165,494** | 83,860 |
| **Net cash inflow/(outflow) from investing activities** | | **(55,453)** | (129,585) |
| ***Cash flows from financing activities*** | | | |
| Proceeds from applications by unitholders | | **516,426** | 385,826 |
| Payments for redemptions by unitholders | | **(341,129)** | (216,166) |
| Distributions paid | | **(65,763)** | (52,380) |
| Proceeds from borrowings | | **140,000** | - |
| Repayment of borrowings | | **(140,000)** | - |
| Borrowing costs | | **(643)** | - |
| **Net cash inflow/(outflow) from financing activities** | | **108,891** | 117,280 |
| **Net increase/(decrease) in cash and cash equivalents** | | 83,078 | 15,654 |
| Cash and cash equivalents at beginning of the year | | 48,974 | 33,320 |
| **Cash and cash equivalents at the end of the year** | 18(b) | 132,052 | 48,974 |

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

## Contents of the notes to the financial statements

## 1 General information

This financial report covers MFS Premium Income Fund (the "Trust") as an individual entity. The Trust was constituted on 22 December 1999.

The Responsible Entity of MFS Premium Income Fund is MFS Investment Management Limited. The responsible entity's registered office is 5 Hicks Street, Southport, Qld, 4215. The financial report is presented in the Australian currency.

The Trust aims to generate significant medium-term capital growth within a rigorous risk management framework, as per the objectives stated in the Product Disclosure Statement. It aims to achieve these objectives by trading a highly diversified portfolio of equity securities of Australian companies included in the ASX 300 index, equity securities listed on international exchanges, debt securities, related derivatives, and unlisted unit trusts.

The financial statements were authorised for issue by the directors on 14 September 2007. The directors of the responsible entity have the power to amend and reissue the financial report.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

*Compliance with International Financial Reporting Standards (IFRS)*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Trust, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

### (b) Principles of consolidation

The financial statements were consolidated in the year ended 30 June 2006 because the Trust owned greater than 50% of the voting rights in MFS Resort Asset Investment Fund. As the Trust did not hold greater than 50% of the voting rights in any entity in the year ended 30 June 2007, consolidated financial statement have not been prepared.

### (c) Financial instruments

***(i) Classification***

The Trust's investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

  These include financial assets that are not held for trading purposes and which may be sold. These are investments in fixed interest securities, equity instruments and units in managed investment schemes.

  Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Trust's documented investment strategy. The Trust's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

## 2 Summary of significant accounting policies (continued)

**(c) Financial instruments (continued)**

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Trust provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 14).

***(ii) Recognition/derecognition***

The Trust recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cashflows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

***(iii) Measurement***

*(a) Financial assets and liabilities held at fair value through profit or loss*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

- Fair value in an active market

  The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

  The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

  Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used in a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

  For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable pricing/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

  Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

*(b) Other financial assets*

Included in "Other financial assets" are loan assets which are measured initially at fair value (plus transaction costs directly attributable to the acquisition) and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheets date to determine whether there is objective evidence of impairment. For example when there has been a significant or prolonged decline in the fair value below cost.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

*(c) Mortgage loans*

Mortgage loans held by the Trust are classified as loans and are stated at amortised cost, with any impairment loss recognised directly in the income statement. The carrying amount of the mortgage loans represents principal less repayments, plus any compound interest. Interest is calculated using the effective interest method.

### (d) 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 Trust at any time for cash equal to a proportionate share of the Trust'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 balance sheets date if unitholders exercised their right to put the units back to the Trust.

These items are included in the determination of distributable income in the period for which they are assessable or deductible for taxation purposes.

### (e) Cash and cash equivalents

For cash flow statements presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, high liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments including cash management trusts.

### (f) Revenue recognition

#### Interest Income

Interest income is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income is recognised on a gross basis, including withholding tax, if any.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

## 2 Summary of significant accounting policies (continued)

### (f) Revenue recognition (continued)

**Investment income**

Income from debt units or preferential units where the income is effectively of a fixed nature is recognised as it accrues

Income from managed investment schemes and fixed securities is recognised on an accruals basis and is thus accounted for in the period to which the income relates.

Revenue from dividends and distributions from other investments is recognised at the earlier of declaration or receipt.

**Realised profit and loss on sale**

The gain or loss on disposal of current investment assets are recognised as revenue or expense at the date that control of the asset passes to the buyer, usually the settlement date of the contract note.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

**Loans and other fees**

Loan fees include exit fees on loans and are recognised at the earlier of receipt or when the quantum and receipt of the fees is considered virtually certain. When fees relate to a loan which is still outstanding at balance date, the fees are recognised as income on an accruals basis.

All other fees are recognised as income on an accruals basis.

### (g) Borrowing costs

Borrowing costs incurred for the use of the revolving credit racility with the Royal Bank of Scotland are capitalised and spread over the life of the facility. Other borrowing costs are expensed.

### (h) Expenses

All expenses, including manager's fees and custodian fees, are recognised in the income statements on an accruals basis.

### (i) Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed either by way of cash or reinvestment (ie unitholders are presently entitled to the income of the Trust).

Financial instruments 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 Trust is not subject to capital gains tax.

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

### (j) Distributions

In accordance with the Trust Constitution, the Trust distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the income statement as finance costs attributable to unitholders.

## 2 Summary of significant accounting policies (continued)

### (k) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

### (l) Payables

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at 30 June 2007 under the Trust's Constitution.

Financial liabilities that are not at fair value through profit and loss include accounts payable which are measured at amortised cost. Trade payables are recognised for amounts to be paid in the future for goods or services received. Trade accounts are normally settled within 60 days.

### (m) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust 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 Trust divided by the number of units on issue.

### (n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as audit fees, custodial services and investment management fees have been passed onto the Trust. The Trust qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

### (o) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set below:

(i) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Trust's financial instruments.

## 2 Summary of significant accounting policies (continued)

### (p) New accounting standards and interpretations (continued)

(ii) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]*

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will affect the segment disclosures provided in note 12.

*(iii)* AASB 101 *Presentation of Financial Statements* (Revised)

AASB 101 (Revised) is aplicable to annual reporting period begining on or after 1 January 2007. The Trust has not adopted this standards early. Application of this standard will not affect any of the amounts recognised in the financial statements.

### (q) Rounding of amounts

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 financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (r) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

## 3 Interest income

| | Year ended | | | | | |
|---|---|---|---|---|---|---|
| | | **30 June 2007** | | | 30 June 2006 | |
| | **Average balance $'000** | **Interest $'000** | **Average rate %** | Average balance $'000 | Interest $'000 | Average rate % |
| Cash and deposits - domestic | **62,213** | **2,882** | **4.63** | 79,716 | 4,349 | 5.46 |
| Fixed interest securities - domestic | **81,367** | **7,252** | **10.16** | 19,805 | 1,368 | 6.90 |
| Interest - promissory notes | **10,000** | **894** | **8.94** | 15,583 | 1,999 | 12.82 |
| Mortgage income | **309,281** | **33,333** | **10.78** | 312,347 | 35,458 | 11.35 |
| Asset backed investments | **160,042** | **17,980** | **11.23** | 73,502 | 8,108 | 11.03 |
| | | **62,341** | | | 51,282 | |

## 4 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

| | Year ended | |
|---|---|---|
| | **30 June 2007 $'000** | 30 June 2006 $'000 |
| **Net gains/(losses) on financial instruments held at fair value through profit or loss** | | |
| Net unrealised gain/(loss) on trading securities | **6,904** | 2,394 |
| Net unrealised gain/(loss) on financial instruments designated as at fair value through profit or loss | **(3,679)** | (2,319) |
| Net realised gain/(loss) on financial instruments designated as at fair value through profit or loss | **4,058** | 3,243 |
| Total net gains/(losses) on financial assets held at fair value through profit or loss | **7,283** | 3,318 |

## 5 Investment Income

| | Year ended | | | | | |
|---|---|---|---|---|---|---|
| | | **30 June 2007** | | | 30 June 2006 | |
| | **Average balance $'000** | **Interest $'000** | **Average rate %** | Average balance $'000 | Interest $'000 | Average rate $'000 |
| Unrelated managed investment schemes | 143,463 | 13,489 | 9.40 % | 50,993 | 4,961 | 9.72 % |
| Related managed investment schemes | 40,858 | 3,416 | 8.36 % | 74,823 | 8,496 | 11.35 % |
| | | 16,905 | | | 13,457 | |

## 6 Loan and other fees

| | Year ended 30 June 2007 $'000 | 30 June 2006 $'000 |
|---|---|---|
| Mortgage loan fees | - | 510 |
| Guarantor fee | 13 | 35 |
| Rebateable commission | - | 190 |
| Investor penalties | 52 | 15 |
| | 65 | 750 |

## 7 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Trust:

| | Year ended 30 June 2007 $ | 30 June 2006 $ |
|---|---|---|
| **(a) Audit services** | | |
| *Audit services* | | |
| KPMG | 2,292 | 18,263 |
| Pricewaterhousecoopers | 15,980 | - |
| Total remuneration for audit services | 18,272 | 18,263 |
| **(b) Non-audit services** | | |
| Other regulatory audit services - KPMG | 26,532 | 6,650 |
| Other - KPMG | - | 4,500 |
| Total remuneration for non-audit services | 26,532 | 11,150 |

## 8 Net assets attributable to unitholders

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

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

| | As at 30 June 2007 No. '000 Liability | 30 June 2006 No. '000 Liability | 30 June 2007 $'000 Liability | 30 June 2006 $'000 Liability |
|---|---|---|---|---|
| **Net assets attributable to unitholders** | | | | |
| Opening balance | 704,795 | 535,136 | 704,795 | 535,136 |
| Redemptions | (341,129) | (296,125) | (341,129) | (296,125) |
| Applications - Cash | 493,890 | 447,840 | 493,890 | 447,840 |
| Applications - Reinvestments | 22,535 | 17,944 | 22,535 | 17,944 |
| | 175,296 | 169,659 | 175,296 | 169,659 |
| Closing balance | 880,091 | 704,795 | 880,091 | 704,795 |

## 9 Distributions to unitholders

### Timing of distributions

The distributions were paid/payable as follows:

| | Year ended | | | |
|---|---|---|---|---|
| | **30 June 2007 $'000** | **30 June 2007 CPU** | 30 June 2006 $'000 | 30 June 2006 CPU |
| **During the reporting period distributions paid or payable** | | | | |
| Distributions paid | **61,156** | **7.65** | 49,197 | 7.73 |
| Distributions payable | **5,751** | **0.65** | 4,607 | 0.68 |
| | **66,907** | | 53,804 | |
| Total distributions | **66,907** | | 53,804 | |

## 10 Other financial assets

| | As at | |
|---|---|---|
| | **30 June 2007 $'000** | 30 June 2006 $'000 |
| Asset backed investments | **144,667** | 90,427 |
| Investments with related parties | **31,353** | 13,351 |
| | **176,020** | 103,778 |

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

| | As at | |
|---|---|---|
| | **30 June 2007 Fair value $'000** | 30 June 2006 Fair value $'000 |
| **Unrelated entities** | | |
| Equity securities | **151,454** | 129,713 |
| Fixed interest securities | **108,556** | 36,247 |
| Total unrelated entities | **260,010** | 165,960 |
| **Related entities** | | |
| Equity securities | **37,370** | 41,213 |
| Fixed interest securities | **-** | 21,304 |
| Total related entities | **37,370** | 62,517 |
| **Total financial assets held at fair value through profit or loss** | **297,380** | 228,477 |

## 12 Segment information

A segment is a distinguishable component of the Trust that is engaged either in a business segment or based on the Trust's asset classes within a particular geograhpical segment based on the geographical location of the assets, which are subject to risks and rewards that are different from those of other segments.

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. The trust provides mortgage secured finance to its customers.

The Trust operates In Australia and all directly held assets are predominantly Australian. Some of these assets may themselves hold overseas assets.

The Trust also invests in certain securities which are listed both on the Australian and international stock exchanges.

## 13 Mortgage Loans

| | As at | |
|---|---|---|
| | **30 June 2007 $'000** | 30 June 2006 $'000 |
| Mortgage loans | **271,571** | 327,771 |
| | **271,571** | 327,771 |

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 30 June 2007, there were 5 loans past due for repayment (2006: 5 loans) with a total principal balance of $35,415,017 (2006:$46,513,600). The directors do not expect any loss to be incurred in relation to these loans.

Subject to MFS Investment Management Limited operating within the lending policy stipulated in the insurance policy, Underwriters, Lloyd's of London, have indemnified MFS Investment Management Limited 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 66.67% of each mortgage amount or $3,000,000 whichever is the lesser.

## 14 Receivables

| | As at | |
|---|---|---|
| | **30 June 2007 $'000** | 30 June 2006 $'000 |
| Trade receivables | **86** | 110 |
| Interest receivable | **8,902** | 2,298 |
| GST receivable | **-** | 179 |
| | **8,988** | 2,587 |

## 15 Payables

| | As at 30 June 2007 $'000 | As at 30 June 2006 $'000 |
|---|---|---|
| Trade payables | **16** | 107 |
| Accrued expenses | **749** | 2,078 |
| GST payable | **57** | - |
| | **822** | 2,185 |

## 16 Financial risk management

The Trust is exposed to market price risk, interest rate risk, credit risk and liquidity risk arising from the financial instruments it holds. The risk management policies employed by the Trust to manage these risks are discussed below.

### (a) 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. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved
- ensuring that transactions are undertaken with a large number of counterparties, and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

As at 30 June 2007, the Trust's investments in mortgage loans related to 35 borrowers (2006:40), with borrowings ranging from approximately $0.7m to $31.6m ( 2006: approximately $1.2m to $48.2m).

### (b) 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 Trust's exposure to interest rate risk and the weighted average effective interest rate is set out in the following table:

## 16 Financial risk management (continued)

| 30 June 2007 | Weighted average interest rate (% pa) | Floating interest rate $'000 | Fixed interest rate 3 months or less $'000 | 4 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 4.63 | 132,052 | - | - | - | - | - | 132,052 |
| Asset backed investments | 11.23 | - | - | 176,020 | - | - | - | 176,020 |
| Receivables | - | - | - | - | - | - | 8,988 | 8,988 |
| Related managed investment schemes | 8.36 | - | - | 37,370 | - | - | - | 37,370 |
| Unrelated managed investment schemes | 9.40 | - | - | - | 151,454 | - | - | 151,454 |
| Fixed interest securities | 10.16 | - | - | 98,556 | - | - | - | 98,556 |
| Mortgage loans | 10.78 | - | - | 202,103 | 69,468 | - | - | 271,571 |
| Promissory notes & unsecured notes | 8.94 | - | - | 10,000 | - | - | - | 10,000 |
| Other assets | - | - | - | - | - | - | 653 | 653 |
| **Total assets** | | 132,052 | - | 524,049 | 220,922 | - | 9,641 | 886,664 |

| 30 June 2006 | Weighted average interest rate (% pa) | Floating interest rate $'000 | Fixed interest rate 3 months or less $'000 | 4 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 5.38 | 48,974 | - | - | - | - | - | 48,974 |
| Asset backed investments | 11.03 | - | - | 103,778 | - | - | - | 103,778 |
| Receivables | - | - | - | - | - | - | 2,587 | 2,587 |
| Related managed investment schemes | 11.35 | - | - | 39,604 | 22,913 | - | - | 62,517 |
| Unrelated managed investment schemes | 9.72 | - | - | - | 129,713 | - | - | 129,713 |
| Fixed interest securities | 6.90 | - | - | 26,247 | - | - | - | 26,247 |
| Mortgage loans | 11.35 | - | - | 266,753 | 61,018 | - | - | 327,771 |
| Promissory notes & unsecured notes | 12.82 | - | - | 10,000 | - | - | - | 10,000 |
| **Total assets** | | 48,974 | - | 446,382 | 213,644 | - | 2,587 | 711,587 |

### (c) Market price risk

Market price risk is the risk that the value of the Trust's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

## 16 Financial risk management (continued)

### (d) Liquidity and cash flow risk

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

### (e) Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at fair value.

## 17 Related party transactions

### Responsible Entity

The responsible entity of MFS Premium Income Fund is MFS Investment Mangement Limited (ABN 20 101 634 146)

### Custodian

The custodian of the Trust is Perpetual Nominees limited (ACN 000 733 700). Custodian fees have been paid by the Trust.

### Key management personnel

Key management personnel includes persons who were directors of MFS Investment Mangement Limited at any time during the financial year. Details of the directors of the Responsible Entity are disclosed in the director's report.

### Responsible Entity's/manager's fees and other transactions

Under the new remuneration structure, MFS Investment Management Limited is entitled to receive;

- All surplus funds generated by the Trust only after all current distribution, redemption and expense obligations have been satisfied at the end of each month.
- Reimbursement of Trust expenses incurred by MFS Investment Management Limited on behalf of the Trust.

Transactions with related parties are set out below:

| | As at | |
|---|---|---|
| | **30 June 2007 $** | 30 June 2006 $ |
| **Transactions with related parties are set out below:** | | |
| Management fees for the year by the Trust to the Responsible Entity | **16,091,892** | 7,773,534 |
| Other expenses include administration expenses incurred by the Responsible Entity, which are reimbursed to the Responsible Entity in accordance with the provisions of the Constitution. | **821,250** | 3,231,695 |

## 17 Related party transactions (continued)

**Aggregate amounts payable to the Responsible Entity at the reporting date**

| | 30 June 2007 $ | 30 June 2006 $ |
|---|---|---|
| Responsible Entity | 464,630 | 1,216,280 |
| MFS Administration Pty Ltd | 16,500 | 55,630 |

These amounts are included in accounts payable and accrued expenses

* Following the introduction of the new management fee structure from 23 June 2006 ( i.e. Surplus after all trust expenses, distributions and redemptions obligations are met) there is a reduction in the value of the Trust expenses paid and reimbursed to the Responsible Entity this year due to these fees being funded by the management fee.

It is important to note that the overall cost of operating the Trust (i.e. Total Trust Expenses, including insurance and management fees) for the year was 2.46% (2006, 2.35%) - based on weighted average unit holder value).

**Related party schemes' unitholdings**

Parties related to the Trust (including MFS Investment Mangement Limited, its related parties and other schemes managed by MFS Investment Mangement Limited), held units in the Trust as follows:

**2007**

| Unitholder | Number of units held opening (Units) | Number of units held closing (Units) | Interest held (%) | Number of units acquired (Units) | Number of units disposed (Units) | Distributions paid/payable ($) |
|---|---|---|---|---|---|---|
| MFS Wholesale Premium Income Fund | 61,077,053 | 75,712,331 | 8.60 | 59,952,786 | 45,317,508 | 5,348,917 |
| The MFS Cash Enhanced Fund | - | 503,418 | 0.05 | 783,418 | 280,000 | 34,304 |
| Michael C King Superannuation Fund | 38,726 | 42,443 | - | 4,717 | - | 4,717 |
| MFS Administration Pty Ltd | - | 60,000,000 | 6.82 | 60,000,000 | - | 17,753 |

**2006**

| Unitholder | Number of units held opening (Units) | Number of units held closing (Units) | Interest held (%) | Number of units acquired (Units) | Number of units disposed (Units) | Distributions paid/payable ($) |
|---|---|---|---|---|---|---|
| MFS Wholesale Premium Income Fund | 32,418,502 | 61,077,053 | 8.67 | 63,685,140 | 35,026,589 | 3,773,339 |
| MFS L&L Management Limited | 100,000 | - | - | - | 100,000 | 993 |
| Michael C King Superannuation Fund | 35,584 | 38,726 | - | 3,142 | - | 3,142 |

## 17 Related party transactions (continued)

### Key management personnel compensation

The directors have not received any remuneration from the Responsible Entity, the Trust, or any of the entities formerly controlled by the Trust.

### Investments

The trust held investments in the following schemes which are also managed by MFS Investment Mangement Limited or its related parties:

All transactions with related parties are conducted on normal commercial terms and conditions.

| | Fair value of investment | | Interest held | | Distributions received/receivable | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **%** | % | **$** | $ |
| **Cash held in related parties** | | | | | | |
| MFS PECS Trust | **437,667** | 1,010,000 | - | - | **7,634** | 18,402 |
| The MFS Cash Enhanced Fund | **30,000,000** | - | **47.70** | - | **438,336** | - |
| | **30,437,667** | 1,010,000 | | | **445,970** | 18,402 |
| **Loans to related parties** | | | | | | |
| Loan to MFS Living and Leisure | - | - | - | - | - | 487,798 |
| Loan to Bale Port Douglas | - | - | - | - | - | 2,191,013 |
| Loan to MFS 200 Queen Street Property Trust | - | 12,335,728 | - | - | **496,486** | 259,988 |
| Debt units in MFS Optimiser One | - | 21,304,103 | - | - | **597,365** | 1,614,267 |
| Debt units in MFS Mirage Investment Trust | - | - | - | - | - | 2,356,164 |
| | - | 33,639,831 | | | **1,093,851** | 6,909,230 |
| **Investments in related parties** | | | | | | |
| MFS Group Notes | - | - | - | - | - | 1,396,356 |
| MFS Pacific Finance Ltd unsecured notes | **23,000,000** | - | - | - | **1,828,735** | 231,315 |
| MFS Optimiser One | - | 3,679,871 | - | 17.37 | **146,464** | 723,546 |
| MFS Diversified Trust | **33,416,156** | 15,038,461 | **8.50** | 19.08 | **1,739,759** | 422,394 |
| MFS PECS Trust | **5,000** | 5,000 | **10.00** | 10.00 | **25,704** | - |
| MFS Resort Asset Investment Fund | - | 20,642,000 | - | 47.14 | **1,529,895** | 3,379,297 |
| MFS Bluesky Development Trust | **3,115,750** | - | **6.25** | - | - | - |
| MFS Property Trust No. 7 | **838,302** | - | **39.95** | - | - | - |
| MFS Living & Leisure | **8,348,464** | - | **4.72** | - | **594,843** | - |
| | **68,723,672** | 39,365,332 | | | **5,865,400** | 6,152,908 |
| | **99,161,339** | 74,015,163 | | | **7,405,221** | 13,080,540 |

In June 2007, the Trust acquired the assets of MFS Optimiser One for $20,495,385 and redeemed all of its equity and debt units held in MFS Optimiser One.

## 18 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended 30 June 2007 $'000 | Year ended 30 June 2006 $'000 |
|---|---|---|
| **(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities** | | |
| Net profit/(loss) | **66,907** | 53,804 |
| -Capitalised Interest and insurance | **(26,209)** | (20,445) |
| -Unrealised (profit)/loss | **(3,225)** | (75) |
| Decrease/(increase) in receivables | **(6,413)** | (5,510) |
| (Decrease)/increase in payables | **(1,420)** | 185 |
| ***Net cash inflow/(outflow) from operating activities*** | **29,640** | 27,959 |
| **(b) Components of cash and cash equivalents** | | |
| Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows: | | |
| Cash and cash equivalents | **132,052** | 48,974 |
| | **132,052** | 48,974 |
| **(c) Non-cash financing and investing activities** | | |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | **22,535** | 17,944 |
| | **22,535** | 17,944 |

## 19 Events occurring after the balance sheet date

No significant events have occurred since balance date which would impact on the financial position of the Trust disclosed in the balance sheet as at 30 June 2007 or on the results and cash flows of the Trust for the year ended on that date.

## 20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2007 and 30 June 2006.

## Directors' declaration

In the opinion of the directors of the responsible entity:

(a) the financial statements and notes set out on pages 7 to 26 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) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*

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

Director

Southport
14 September 2007

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## Independent auditor's report to the unitholders of the MFS Premium Income Fund

### Report on the financial report

We have audited the accompanying financial report of the MFS Premium Income Fund (the "Fund"), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fund.

*Directors' responsibility for the financial report*

The directors of MFS Investment Managers Limited, the Responsible Entity, 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*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

*Auditor's opinion on the financial report*
In our opinion:

(a) the financial report of the MFS Premium 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 2007 and of its performance for the year ended on that date; and
    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

PricewaterhouseCoopers

PricewaterhouseCoopers

Timothy J Allman
Partner

Brisbane
14 September 2007