


**MFS Premium Income Fund and its controlled entities**

**ARSN 090 687 577**

**Annual Financial Report  
30 June 2005**

*This is Annexure A of 31 pages referred to in Form 388 "Copy of financial statements and reports".*

  
Signed

06 SEP 2005  
Date

## **MFS Premium Income Fund and its controlled entities**

**ARSN 090 687 577**

### **Directors' report**

The directors of MFS Investment Management Limited present their report together with the financial report of MFS Premium Income Fund (the "Scheme") and of the consolidated entity, being the Scheme and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

#### **Current Responsible Entity**

The Responsible Entity of MFS Premium Income Fund is MFS Investment Management Limited. MFS Investment Management Limited was appointed Responsible Entity of the Scheme upon the retirement of McLaughlins Financial Services Limited on 1 September 2004.

The directors of MFS Investment Management Limited during or since the end of the financial year are:

<b>Name</b>	<b>Period of directorship</b>
Mr Philip William Adams	Appointed 8 August 2002
Mr Spencer Martin Young	Appointed 15 May 2003
Mr Michael Christodoulou King	Appointed 8 August 2002
Mr Michael Gordon Hiscock	Appointed 15 May 2003
Mr Paul Joseph Manka	Appointed 15 May 2003

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

#### **Company Secretary**

David Anderson – B.Com FCA IP MICM CFA  
*Chief Financial Officer*

David was appointed Company Secretary on 8 August 2002. David is responsible for the treasury and financial structuring roles throughout the MFS Limited businesses and oversees the financial reporting function. David joined MFS in 2002 after 20 years in the accounting profession having practised in Australia, Europe, Asia and the South Pacific. David is an ex partner of KPMG Australia where his clients included major banks and financial institutions.

Kim Kercher - C.A, BBus(Acc), Grad Dip Applied Corp Gov, ACIS  
*Chief Governance Officer*

Kim was appointed to the position of Company Secretary on 25 September 2003. Kim joined the MFS group of companies in 2001 and also acts as Company Secretary of the ultimate parent entity and a number of subsidiary entities within the group. Prior to joining MFS, Kim was a manager with KPMG specialising in assurance and advisory services. Kim has thirteen years experience in accounting, compliance, regulatory and financial reporting.

#### **Former Responsible Entity**

McLaughlins Financial Services Limited had been the Responsible Entity of the Scheme since registration of the Scheme in December 1999 until 1 September 2004. The directors of McLaughlins Financial Services Limited during or since the end of the financial year are:

<b>Name</b>	<b>Period of directorship</b>
Mr Philip William Adams	Appointed 15 July 1999
Mr Spencer Martin Young	Appointed 15 July 1999
Mr Michael Christodoulou King	Appointed 7 October 1999
Mr Michael Gordon Hiscock	Appointed 15 July 1999
Mr Paul Joseph Manka	Appointed 15 July 1999

## **MFS Premium Income Fund and its controlled entities**

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### **Directors' report**

#### **Principal activities**

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

The Scheme's principal activity for the year was the receipt of unitholder's funds and investment of unitholder's funds in registered first mortgages, charges on assets and cash.

The Scheme did not have any employees during the year.

There has been no significant change in the nature of those activities during the year.

#### **Review and results of operations**

##### ***Operating result***

The consolidated net profit for the year ended 30 June 2005 was \$38,973,778 (2004: \$nil). The scheme net profit for the year ended 30 June 2005 was \$38,973,778 (2004: \$27,081,781)

##### ***Distributions***

Distributions paid or payable by the Scheme in respect to the financial year total \$38,973,778 (2004: \$27,081,781). This represents an average return of 8.45% (2004: 7.15%) on funds invested by unitholders.

##### ***Unitholders' funds***

The Scheme issued 291,228,613 units during the financial year (2004: 222,911,875) while 134,582,937 units were redeemed (2004: 94,431,848), resulting in a balance of 535,135,683 units on issue as at 30 June 2005 (2004: 378,490,007).

The Consolidated Entity had total assets valued at \$590,299,289 as at 30 June 2005 (2004: \$nil). The scheme had total assets of \$540,318,973 (2004: \$382,325,664). The basis for valuation of the Consolidated Entity's assets is disclosed in Note 1 to the financial statements.

#### **State of affairs**

The Scheme continued to invest primarily in mortgage loans during the year ended 30 June 2005 and continues to offer investors a diversified investment profile and a variety of investment terms ranging from at call to 36 months.

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

#### **Likely developments**

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

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

Further information about likely developments in the operations of the Scheme and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Scheme.

## MFS Premium Income Fund and its controlled entities

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### Directors' report

#### Events subsequent to balance date

From 1 July 2005, the Scheme must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

Other than the matter discussed above there has not arisen in the interval between the end of the financial year, and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

#### Interests of the Responsible Entity

The Responsible Entity and its associates held the following units in the Scheme at year-end.

2005	Investment held by related party	Investments during the year	Repayments during the year	Distribution paid during the year
Related party	\$	\$	\$	\$
MFS Wholesale Premium Income Fund	32,418,524	49,434,129	17,015,605	1,236,682
MFS L&L Management Limited	100,000	100,000	-	2,209
Michael C King Superannuation Fund	35,584	35,584	-	1,884

Nelther the Responsible Entity or its associates held units in the Scheme in 2004.

#### Responsibilities Entity's remuneration

In accordance with the Schemes Constitution, MFS Investment Management Limited is entitled to receive:

- An ongoing management fee of up to 1% per annum (plus GST) of the total assets of the fund;
- Reimbursement of Scheme expenses incurred by MFS Investment Management Limited on behalf of the Scheme.

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

	2005 \$	2004 \$
■ Management Fees for the year received directly from MFS Premium Income Fund.	4,811,478	4,047,084
■ Other expenses included administration expenses incurred by the Responsible Entity, which are reimbursed to the Responsible Entity in accordance with the provisions of the Constitution.	162,695	223,346



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**MFS Premium Income Fund and its controlled entities**

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**Directors' report**

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

To: The Directors of the Responsible Entity, MFS Investment Management Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*KPMG*

KPMG

*Michael*

DM Scammell  
Partner

Place: Melbourne

Date: 6 September 2005



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.

**MFS Premium Income Fund and its controlled entities**

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**Directors' report**

**Indemnities and insurance of Officers or Auditors**

***Indemnification***

Under the Scheme constitution the Responsible Entity, including its officers and employees, is indemnified out of the Scheme's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

The Scheme has not indemnified any auditor of the Scheme.

***Insurance premiums***

No insurance premiums are paid out of the Scheme's assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or the auditors of the Scheme.

Details of the nature of the liabilities covered or the amounts of the premium paid has not been included as such disclosure is prohibited under the terms of the contract.

Signed in accordance with a resolution of the directors of MFS Investment Management Limited.



\_\_\_\_\_  
Director

\_\_\_\_\_  
Date 06 SEP 2005

**MFS Premium Income Fund and its controlled entities**

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**Statement of financial performance  
for the financial year ended 30 June 2005**

	Note	Consolidated		The Scheme	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Investment income</b>					
Interest income	2 (a)	45,551,447	-	45,551,447	35,123,761
Distribution income	2 (b)	2,488,992	-	2,488,992	1,064,714
Loans fees	2 (c)	1,817,412	-	1,817,412	-
<b>Total revenue</b>		<u>49,857,851</u>	<u>-</u>	<u>49,857,851</u>	<u>36,188,475</u>
<b>Expenses</b>					
Management fees		4,811,478	-	4,811,478	4,047,084
Custodian fees		1,256,058	-	1,256,058	972,639
Scheme expenses	3(a)	4,786,964	-	4,786,964	4,063,828
Audit fees	3(b)	29,573	-	29,573	23,143
<b>Total expenses</b>		<u>10,884,073</u>	<u>-</u>	<u>10,884,073</u>	<u>9,106,694</u>
<b>Net profit</b>		<u>38,973,778</u>	<u>-</u>	<u>38,973,778</u>	<u>27,081,781</u>
<b>Net profit comprises</b>					
Distributions paid and payable	5	<u>38,973,778</u>	<u>-</u>	<u>38,973,778</u>	<u>27,081,781</u>

*The statement of financial performance is to be read in conjunction with the notes to the financial statements.*

**MFS Premium Income Fund and its controlled entities**

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**Statement of financial position  
as at 30 June 2005**

	Note	Consolidated		The Scheme	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents		37,028,926	-	33,320,541	11,014,923
Inventories	6	298,984	-	-	-
Mortgage loans	7	307,343,965	-	307,343,965	311,581,572
Investments	8	151,868,999	-	191,868,999	54,547,830
Receivables	9	14,248,445	-	7,204,462	4,860,444
Other assets	10	1,019,146	-	581,006	320,895
<b>Total current assets</b>		<u>511,808,465</u>	<u>-</u>	<u>540,318,973</u>	<u>382,325,664</u>
<b>Non-current assets</b>					
Property plant & equipment	11	17,995,829	-	-	-
Intangible assets	12	60,494,995	-	-	-
		<u>78,490,824</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>		<u>590,299,289</u>	<u>-</u>	<u>540,318,973</u>	<u>382,325,664</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Payables	13	11,232,809	-	2,002,172	1,806,298
Distribution payable	5	3,181,118	-	3,181,118	1,417,651
Provisions	14	204,109	-	-	-
Interest bearing liabilities	15	4,464,340	-	-	-
Interest received in advance		-	-	-	611,708
<b>Total current liabilities</b>		<u>19,082,376</u>	<u>-</u>	<u>5,183,290</u>	<u>3,835,657</u>
<b>Non-current liabilities</b>					
Interest bearing liabilities		<u>36,081,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total non-current liabilities</b>		<u>36,081,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>55,163,606</u>	<u>-</u>	<u>5,183,290</u>	<u>3,835,657</u>
<b>Net assets</b>		<u>535,135,683</u>	<u>-</u>	<u>535,135,683</u>	<u>378,490,007</u>
<b>Unitholders funds</b>					
Units on issue		<u>535,135,683</u>	<u>-</u>	<u>535,135,683</u>	<u>378,490,007</u>
<b>Unitholders' funds</b>	4	<u>535,135,683</u>	<u>-</u>	<u>535,135,683</u>	<u>378,490,007</u>

*The statement of financial position is to be read in conjunction with the notes to the financial statements.*



**MFS Premium Income Fund and its controlled entities**

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**Statement of cash flows  
for the financial year ended 30 June 2005**

	Note	Consolidated		The Scheme	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Interest, fees and distributions received		28,012,707	-	28,012,707	32,479,374
Scheme expenses paid		(11,586,257)	-	(11,586,257)	(8,450,717)
<b>Net cash provided by/(used in) operating activities</b>	18(a)	<u>16,426,450</u>	<u>-</u>	<u>16,426,450</u>	<u>24,028,657</u>
<b>Cash flows from investing activities</b>					
Mortgage loans made		(161,784,941)	-	(161,784,941)	(133,380,586)
Mortgage loans repaid		183,863,433	-	183,863,433	49,522,580
Investments in managed investment schemes		(67,534,000)	-	(67,534,000)	(13,803,011)
Redemption of Investments in managed investment schemes		264,000	-	264,000	-
Payments for controlled entities net of cash acquired	18 (d)	3,708,385	-	-	-
Short-term advance made		-	-	-	(15,000,000)
Short term advance repaid		15,000,000	-	15,000,000	-
Promissory & unsecured notes made		(146,579,013)	-	(146,579,013)	-
Promissory & unsecured notes redeemed		124,579,013	-	124,579,013	-
Other investments made		(77,888,194)	-	(77,888,194)	(15,744,818)
Other investments redeemed		16,499,184	-	16,499,184	-
<b>Net cash provided by/(used in) investing activities</b>		<u>(109,872,133)</u>	<u>-</u>	<u>(113,580,518)</u>	<u>(128,405,835)</u>
<b>Cash flows from unitholders activities</b>					
Applications		291,228,613	-	291,228,613	222,911,875
Redemptions		(134,582,937)	-	(134,582,937)	(94,431,848)
Distributions paid		(37,185,990)	-	(37,185,990)	(25,713,991)
<b>Net Cash provided by/(used in) unitholders activities</b>		<u>119,459,686</u>	<u>-</u>	<u>119,459,686</u>	<u>102,766,036</u>
<b>Net increase in cash held</b>		26,014,003	-	22,305,618	(1,611,142)
<b>Cash at the beginning of the financial year</b>		<u>11,014,923</u>	<u>-</u>	<u>11,014,923</u>	<u>12,626,065</u>
<b>Cash at the end of the financial year</b>	18(b)	<u>37,028,926</u>	<u>-</u>	<u>33,320,541</u>	<u>11,014,923</u>

*The statement of cash flows is to be read in conjunction with the notes to the financial statements.*

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**1. Statement of significant accounting policies**

The significant policies which have been adopted in the preparation of this financial report are:

**(a) Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

The accounting policies have been consistently applied and except where there is a change in accounting policy, are consistent with those of the previous financial year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**(b) Principles of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Scheme (the parent entity) and its controlled entities as defined in AASB 1024 "Consolidated Accounts". A list of controlled entities appears in note 20 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Scheme obtains control and until such time as the Scheme ceases to control such entity.

In preparing the consolidated financial statements, all inter-entity balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**(c) Income and expenses**

Income from mortgages and other investments is brought to account on an accrual basis. Interest received in advance is deferred and brought to account equally over the relevant period. Interest, which in the opinion of the Responsible Entity is non-recoverable, is written off.

Distribution income from managed investment schemes is recognised as at the date the unit price is quoted ex-distribution.

Loan fees are recognised when the loan is written.

Expenses are brought to account on an accruals basis.

The Responsible Entity is entitled under the Constitution, to receive a management fee and be reimbursed for certain expenses incurred in administering the Scheme. The basis on which the management fee is calculated and expenses are reimbursed is defined in the Constitution.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**1. Statement of significant accounting policies (cont.)**

**(d) Distributions and Taxation**

Under current legislation, the Scheme is not subject to income tax as the taxable income is distributed in full to the unitholders.

The scheme fully distributes its distributable income, calculated in accordance with the Scheme constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution. Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against future realised gain.

**(e) Goods and services tax**

Management fees and other expenses are recognised net of the amount of goods and services tax ("GST") recoverable from the Australian Tax Office ("ATO") as a reduced input tax credit ("RITC").

Creditors and accruals are stated with the amount of GST included.

The net liability of GST recoverable from the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

**(f) Cash and cash equivalents**

Cash and cash equivalents includes deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the Responsible Entity's option and are subject to insignificant risk of changes in value.

**(g) Inventories**

Inventories are carried at the lower of cost and net realisable value. Costs are assigned on a first-in-first out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

**(h) Mortgage loans**

Mortgage loans, which are recorded at principal amount less repayments, represent amounts advanced to other parties which are secured by registered mortgages or charges. The collectability of mortgage loans is assessed and a provision made for any debts which are considered doubtful, and for which insufficient security is held to ensure the full amount of the loan is recoverable. Net fair value of mortgage loans approximate the carrying amount due to the short term to maturity.

**(i) Investments**

Investments are carried in the Scheme's financial statements at cost. The carrying value of these investments is reviewed at each reporting date by the Responsible Entity, and provision made for any amounts considered uncollectible.

**(j) Receivables**

Trade debtors are normally settled within trading terms and are earned at amounts due. The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful debts.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**1. Statement of significant accounting policies (cont.)**

**(k) Recoverable amount of non-current assets**

The carrying amount of non-current assets valued on cost basis, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is expensed in the period it occurs.

**(l) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

**Property**

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

**Depreciation**

All assets, excluding freehold land, are depreciated on a straight line basis over their useful lives. The depreciation rates used for each class of assets are as follows:

	<b>2005</b>
Buildings	2.50%
Plant and equipment	15% - 33%

**(m) Intangibles**

Intangibles are carried at cost or fair value less, where applicable, any accumulated amortisation.

**(n) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

**(o) Employee Benefits**

**Wages, salaries and annual leave**

Liabilities for employee benefits for wages and salaries and annual leave represent the present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

**(p) Interest bearing liabilities**

Bank loans are recognised at their principal amount subject to set-off arrangements. Interest expense is accrued at the contracted rate.

**(q) Comparatives**

The Consolidated Group was formed on the 30 June 2005 and accordingly there is no comparative information for the Consolidated Entity.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**2. Investment income**

**(a) Interest income**

	2005 Consolidated			2004 Scheme		
	Monthly average balance	Interest income	Average rate	Monthly average balance	Interest income	Average rate
	\$	\$	%	\$	\$	%
Cash and cash equivalents	48,464,089	2,516,252	5.19	13,357,575	1,066,904	7.9
Mortgage loans	315,438,671	36,361,939	11.53	275,170,808	32,544,155	11.8
Promissory & unsecured notes	26,918,221	3,068,147	11.40	15,000,000	-	-
Other investments	38,197,888	3,605,109	9.44	13,290,453	1,512,702	11.4
		<u>45,551,447</u>			<u>35,123,761</u>	

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$

**(b) Interest income in related investment management scheme**

Related managed investment scheme	<u>2,488,992</u>	<u>-</u>	<u>2,488,992</u>	<u>1,064,714</u>
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**(c) Fees mortgage loans**

Fees mortgage loans	<u>1,817,412</u>	<u>-</u>	<u>1,817,412</u>	<u>-</u>
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**3. Scheme expenses**

**(a) Expenses**

Advertising and marketing	1,690,645	-	1,690,645	1,099,123
Bad debts expense	240,819	-	240,819	-
Bank charges	14,860	-	14,860	15,233
Lloyds insurance	2,369,421	-	2,369,421	2,784,444
Other	<u>471,219</u>	<u>-</u>	<u>471,219</u>	<u>165,028</u>
	<u>4,786,964</u>	<u>-</u>	<u>4,786,964</u>	<u>4,063,828</u>

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**3. Scheme expenses (cont.)**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>(b) Auditors remuneration</b>				
Audit fees paid by the Scheme:				
Audit and review of the Scheme and financial report	15,573	-	15,573	12,143
Other regulatory audit services	9,500	-	9,500	8,000
Other services	4,500	-	4,500	3,000
	<u>29,573</u>	<u>-</u>	<u>29,573</u>	<u>23,143</u>

	Consolidated		The Scheme	
	2005	2005	2004	2004
	Units	\$	Units	\$
<b>4. Unitholders' funds</b>				
<b>Units on issue</b>				
Opening balance	378,490,007	378,490,007	250,009,980	250,009,980
Applications				
- Cash	277,662,201	277,662,201	214,278,941	214,278,941
- Reinvestments	13,566,412	13,566,412	8,632,934	8,632,934
Redemptions	<u>(134,582,937)</u>	<u>(134,582,937)</u>	<u>(94,431,848)</u>	<u>(94,431,848)</u>
Closing balance	<u>535,135,683</u>	<u>535,135,683</u>	<u>378,490,007</u>	<u>378,490,007</u>

All units in the Scheme are of the same class and carry equal voting rights. Each investor's entitlement to distribution is dependent on the term of their individual investment.

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>5. Distributions</b>				
Distributions in respect of the financial year comprise:				
- Total distributions paid/reinvested	35,792,660	-	35,792,660	25,664,130
- Total distributions payable	<u>3,181,118</u>	<u>-</u>	<u>3,181,118</u>	<u>1,417,651</u>
	<u>38,973,778</u>	<u>-</u>	<u>38,973,778</u>	<u>27,081,781</u>

**6. Inventory**

Finished goods at cost	<u>298,984</u>	<u>-</u>	<u>-</u>	<u>-</u>
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**MFS Premium Income Fund and its controlled entities**

**ARSN 090 687 577**

**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>7. Mortgage Loans</b>				
Mortgage loans				
- maturing < 1 year	257,623,217	-	257,623,217	289,116,647
- maturing 1-5 years	49,720,748	-	49,720,748	22,464,925
	<u>307,343,965</u>	<u>-</u>	<u>307,343,965</u>	<u>311,581,572</u>

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 2005, there were 9 loans past due for repayment (2004: 12 loans) with a total principal balance of \$43,030,431. 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 of Lloyd's of London have indemnified MFS Investment Management Limited and the Scheme 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 \$3,375,000 whichever is the lesser.

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>8. Investments</b>				
<b>(a) Managed investment schemes</b>				
Debt units in a related managed investment scheme (refer note 16)				
- MFS Optimiser One	26,073,011	-	26,073,011	23,803,011
- MFS Mirage Preferential Units	20,000,000	-	20,000,000	-
	<u>46,073,011</u>	<u>-</u>	<u>46,073,011</u>	<u>23,803,011</u>

The investments in a related managed investment scheme represents debt units issued in the MFS Optimiser One (Previously known as MFS Diversified Property Securities Trust) for which MFS Investment Management Limited is also the Responsible Entity and MFS Mirage Resorts Investment Trust for which McLaughlins Financial Services Limited is the Responsible Entity.

<b>(b) Managed investment schemes</b>				
Equity units in a related managed investment scheme (refer note 16)				
- MFS Resort Asset Management Investment Fund	-	-	40,000,000	-
	<u>-</u>	<u>-</u>	<u>40,000,000</u>	<u>-</u>

The investment in a related managed investment scheme represents equity units issued in the MFS Resort Asset Management Investment Fund for which McLaughlins Financial Services Limited is the Responsible Entity.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**8. Investments (cont.)**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
(c) <i>Promissory &amp; unsecured notes</i>				
Promissory & unsecured notes	<u>27,000,000</u>	<u>-</u>	<u>27,000,000</u>	<u>15,000,000</u>

These amounts represent funds held in promissory notes or similar notes, bonds or certificates.  
The investment in 2005 represents promissory and unsecured notes issued by related parties

d) <i>Other investments</i>				
Loans to external parties	78,795,988	-	78,795,988	10,794,819
Loans to related parties	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,950,000</u>
	<u>78,795,988</u>	<u>-</u>	<u>78,795,988</u>	<u>15,744,819</u>

These amounts represent funds held in property linked income producing assets or investments which do not meet the criteria of a secured mortgage but are considered to be in line with the overall investment strategy. This category of investment cannot exceed 15% of the overall investment portfolio.

<b>Total investments</b>	<u>151,868,999</u>	<u>-</u>	<u>191,868,999</u>	<u>54,547,830</u>
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**9. Receivables**

Trade Debtors	6,768,983	-	-	-
Interest receivable	7,154,010	-	7,154,010	4,773,338
GST receivable	<u>325,452</u>	<u>-</u>	<u>50,452</u>	<u>87,106</u>
	<u>14,248,445</u>	<u>-</u>	<u>7,204,462</u>	<u>4,860,444</u>

**10. Other assets**

Prepayments and Deposits	<u>1,019,146</u>	<u>-</u>	<u>581,006</u>	<u>320,895</u>
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**11. Property, plant and equipment**

Land and Buildings				
Freehold land at cost	43,205	-	-	-
Buildings at cost	<u>16,545,808</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total land and buildings	<u>16,589,013</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plant and equipment at cost	<u>1,406,816</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Property, plant and equipment</b>	<u>17,995,829</u>	<u>-</u>	<u>-</u>	<u>-</u>

No depreciation was charged during the period as consolidated entity was formed on 30 June 2005.  
Property, plant and equipment recorded at acquired cost.



**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>12. Intangible assets</b>				
Management and letting rights at cost	60,494,996	-	-	-
No amortisation charged during the period as consolidated entity was formed on 30 June 2005. Management and letting rights recorded at acquired cost.				
<b>13. Payables</b>				
Accounts payable	3,083,813	-	921,556	1,700,964
Accrued expenses	1,055,975	-	1,055,975	105,334
Withholding tax payable	24,641	-	24,641	-
Unsecured loans	7,068,380	-	-	-
	<u>11,232,809</u>	<u>-</u>	<u>2,002,172</u>	<u>1,806,298</u>
<b>14. Provisions</b>				
Employee benefits	204,109	-	-	-
Number of employees at year end	380	-	-	-
<b>15. Interest bearing liabilities</b>				
Current				
Bank bills secured	4,464,340	-	-	-
Non-current				
Bank bills secured	36,081,230	-	-	-
Total secured liabilities	<u>40,545,570</u>	<u>-</u>	<u>-</u>	<u>-</u>

**16. Related parties**

**Responsible Entity**

The Responsible Entity of MFS Premium Income Fund during the financial year was MFS Investment Management Limited (ABN 20 101 634 146) whose immediate and ultimate holding companies are MFS Property Ltd (ABN 62 101 069 381) and MFS Limited (ABN 90 107 863 436) respectively.

**Custodian**

The Custodian of the Scheme is Perpetual Nominees Limited (ACN 000 733 700). Custodian fees have been paid by the Scheme.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**16. Related parties (cont.)**

**Directors**

The names of the persons who were directors of the Responsible Entity during the financial year are as follow:

<b>Name</b>	<b>Period of directorship</b>
Mr Philip William Adams	Appointed 15 July 1999
Mr Spencer Martin Young	Appointed 15 July 1999
Mr Michael Christodoulou King	Appointed 7 October 1999
Mr Michael Gordon Hiscock	Appointed 15 July 1999
Mr Paul Joseph Manka	Appointed 15 July 1999

**Directors' remuneration**

The directors are not directly remunerated by the Scheme itself. Directors are not entitled to any equity interests in the Scheme, or any rights to or options for equity interests in the Scheme, as a result of the remuneration provided by the MFS Limited or any of its entities.

The directors of Responsible Entity, are remunerated by a subsidiary of the Responsible Entity's ultimate parent company, MFS Limited. MFS Limited is a large ASX listed group with operations in Australia and New Zealand in a number of business segments. In addition to their roles as Directors of the Responsible Entity, all of the Directors hold roles within the MFS Limited corporate group, either as non-executive directors or as executive directors, not just associated with the activities of the Responsible Entity.

Given the number and variety of entities operated by the Responsible Entity's ultimate parent, MFS Limited, the Responsible Entity does not consider that there is any direct correlation between the level of remuneration provided to directors of the Responsible Entity and the management fees paid by the Scheme to the Responsible Entity in accordance with the Scheme Constitution and Product Disclosure Statements.

Total remuneration as paid by MFS Limited has been disclosed, as a reasonable basis of allocation across each MFS Limited controlled entity and scheme managed by an MFS Limited entity does not exist.

	Primary benefits			Post-employment		Total remuneration
	Salary & fees \$	Bonus \$	Non-monetary benefits \$	Superannuation benefits \$	Prescribed benefits \$	\$
<b>Directors</b>						
Michael King	488,609	-	71,893	10,793	-	571,295
Philip Adams	450,175	-	70,000	13,441	-	533,616
Spencer Young	442,499	-	-	13,609	-	456,108
Paul Manka	97,869	-	-	7,501	-	105,370
Michael Hiscock	87,704	-	-	8,461	-	96,165
	1,566,856	-	141,893	53,805	-	1,762,554

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**16. Related parties (cont.)**

***Related party transactions (cont.)***

***Related party investments held by the Scheme***

Set out below are details of the Scheme's investments with related Parties managed by the Responsible Entity or its associates.

<b>2005</b>	<b>Interest held in related Scheme</b>	<b>Investments during the year \$</b>	<b>Repayments during the year \$</b>	<b>Contribution to investment income \$</b>
<b>Related Party</b>				
Loan to MFS LIST	-	-	350,000	5,425
Loan to MFS Living and Leisure Trust	4,789,210	4,789,210	600,000	618,528
Loan to MFS Diversified Trust	-	-	4,000,000	89,753
Loan to MFS Bale Port Douglas	19,931,374	19,931,374	-	269,814
Equity Units in MFS Resort Asset Investment Fund	40,000,000	40,000,000	-	-
Debt units in MFS Optimiser One (formerly MFS Diversified Property Securities Trust)	26,073,011	2,534,000	264,000	2,091,370
Debt units in MFS Mirage Investment Trust	20,000,000	20,000,000	-	339,726
MFS Group Notes	22,000,000	62,000,000	40,000,000	2,520,927
MFS Securities & Underwriting	-	55,597,449	55,597,449	502,014
MFS Pacific Finance Ltd promissory notes	5,000,000	5,000,000	-	45,205
	<b>117,862,221</b>	<b>149,620,659</b>	<b>60,811,449</b>	<b>6,212,948</b>

<b>2004</b>	<b>Interest held in related Scheme</b>	<b>Investments during the year \$</b>	<b>Repayments during the year \$</b>	<b>Contribution to investment income \$</b>
<b>Related Party</b>				
Loan to MFS LIST	350,000	350,000	-	7,194
Loan to MFS Living and Leisure Trust	600,000	20,600,000	20,000,000	234,496
Loan to MFS Diversified Trust	4,000,000	4,000,000	-	74,959
Loan to MFS Securities & Underwriting	-	10,607,057	10,607,057	203,968
Debt units in MFS Diversified Property Securities Trust	23,803,011	24,117,719	10,314,708	1,064,714
	<b>28,753,011</b>	<b>59,674,776</b>	<b>40,921,765</b>	<b>1,585,330</b>

Interest/distributions receivable from related schemes as at reporting date are as follows:

	<b>2005 \$</b>	<b>2004 \$</b>
<b>Interest</b>		
Loan to MFS Living and Leisure Trust	59,242	-
Debt units in MFS Optimiser One (formerly MFS Diversified Property Securities Trust)	854,372	390,001
Loan to MFS Diversified Trust	-	29,589
MFS Pacific Finance Ltd promissory notes	45,205	-
<b>Distributions</b>		
Debt units in MFS Mirage Investment Trust	339,726	-
	<b>1,298,545</b>	<b>419,590</b>

These amounts are included in receivables.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**16. Related parties (cont.)**

***Related party transactions (cont.)***

*Unitholders' investing activities*

2005	Investment held by related party	Investments during the year	Repayments during the year	Distribution paid during the year
	\$	\$	\$	\$
<b>Related party</b>				
MFS Wholesale Premium Income Fund	32,418,524	49,434,129	17,015,605	1,236,682
MFS L&L Management Limited	100,000	100,000	-	2,209
Michael C King Superannuation Fund	35,584	35,584	-	1,884

Neither the Responsible Entity nor its related parties held units in the Scheme in 2004.

**17. Segment information**

The Scheme operates predominantly in Australia. The Scheme's operations and customers are located predominantly in Australia. The Scheme provides mortgage secured finance to its customers.

The Consolidated Entity operates predominantly in Australia. The Consolidated Entity's operations and customers are located predominantly in Australia. The Consolidated Entity primary business provides mortgage secured finance to its customers and as a secondary business invests a management rights and leasing (MLR) business.

The secured mortgage finance operations net profit for the period was \$38,973,778 and gross assets were \$500,318,973. The gross liabilities were \$5,183,290.

The management rights and leasing operations net profit was nil and its gross assets were \$89,980,316 and gross liabilities \$49,980,316. The MLR business was acquired on the 30 June 2005.

**18. Notes to the statement of cash flows**

**(a) Reconciliation of net cash provided by operating activities to net profit**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
Net profit	38,973,776	-	38,973,776	27,081,781
Changes in assets and liabilities during the financial year:				
- Decrease/(increase) in receivables	(2,344,016)	-	(2,344,016)	(3,823,742)
- Decrease/(increase) in other assets	(19,763,155)	-	(19,763,155)	(258,818)
- (Decrease)/increase in payables	171,553	-	171,553	655,977
- (Decrease)/increase in interest received in advance	(611,708)	-	(611,708)	373,459
Net cash provided by operating activities	<u>16,426,450</u>	<u>-</u>	<u>16,426,450</u>	<u>24,028,657</u>

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**18. Notes to the statement of cash flows (cont.)**

**(b) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at bank, and short-term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash and cash equivalents	37,028,926	-	33,320,541	11,014,923

**(c) Reinvestment of distribution**

During the financial year, the Scheme issued 13,566,412 units (2004: 8,632,934) as a result of reinvestment of distributions by members totalling \$13,566,412 (2004: \$8,632,934).

**(d) Acquisition of Entities**

During the year, the Scheme purchased 100% of the units in MFS Resort Asset Equity Trust and MFS Resort Asset Income Trust. Details of the acquisitions were:

*MFS Resort Asset Equity Trust - Consolidated*

	MFS Resort Asset Equity Trust	MFS Resort Asset Income Trust	Total
	\$	\$	\$
Cash and cash equivalents	3,708,385		3,708,385
Inventories	298,984		298,984
Receivables	7,043,983		7,043,983
Other current assets	438,140		438,140
Property, Plant & Equipment	17,995,829		17,995,829
Intangibles	60,494,995		60,494,995
Payables	(9,230,637)		(9,230,637)
Provisions	(204,109)		(204,109)
Current Interest bearing liabilities	(4,464,340)		(4,464,340)
Loan from MFS Resort Asset Income Trust	(39,600,000)	39,600,000	-
Non-current interest bearing liabilities	(36,081,230)		(36,081,230)
	400,000	39,600,000	40,000,000
Consideration via conversion of loan			40,000,000
Cash assets acquired			3,708,385
Cash Inflow			3,708,385

All of the units in the above schemes were acquired on 30 June 2005.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**18. Notes to the statement of cash flows (cont.)**

**(e) Financing arrangements**

	Consolidated		The Scheme	
	2005	2004	2005	2004
	\$	\$	\$	\$
Bank Bills	40,545,570	-	-	-
	<u>40,545,570</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Facilities utilised at balance date</i>				
Bank Bills	40,545,570	-	-	-
	<u>40,545,570</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Facilities not utilised at balance date</i>				
Bank Bills	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Commercial Bill Facilities are secured by First Registered Mortgages over all buildings, First Registered Mortgage Debentures over BreakFree Resorts Pty Ltd, Breakfree Holidays Pty Ltd, Breakfree Resorts (NSW) Pty Ltd and Breakfree Ltd and Deed of Consent/Charge over all Management and Letting Rights. The weighted average interest rate is 5.9%.

**19. Additional financial instruments disclosure**

**(a) Interest rate risk**

*Interest rate risk exposures*

The Consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities, is set out below.

	Note	Weighted average Interest rate %	Floating interest rate \$	Fixed interest rate maturing within 12 months \$	Fixed interest rate maturing 1 - 5 years \$	Non- interest bearing \$	Total \$
<b>2005 Consolidated</b>							
<b>Financial Assets</b>							
Cash and cash equivalents		5.19	37,041,143	-	-	-	37,041,143
Receivables	9	-	-	-	-	14,248,445	14,248,445
Mortgage loans	7	11.53	-	257,623,217	49,720,748	-	307,343,965
Related managed investment schemes	8(a)	9.44	-	46,073,011	-	-	46,073,011
Promissory notes & unsecured notes	8(c)	11.40	-	27,000,000	-	-	27,000,000
Other investments	8(d)	9.44	-	78,795,989	-	-	78,795,989
			<u>37,041,143</u>	<u>409,492,217</u>	<u>49,720,748</u>	<u>14,248,445</u>	<u>510,502,553</u>
<b>Financial liabilities</b>							
Payables	13	-	-	-	-	(4,164,428)	(4,164,428)
Distributions payable	5	-	-	-	-	(3,181,118)	(3,181,118)
			<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,345,546)</u>	<u>(7,345,546)</u>

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**19. Additional financial instruments disclosure (cont)**

	Note	Weighted average interest rate %	Floating interest rate \$	Fixed interest rate maturing within 12 months \$	Fixed interest rate maturing 1 - 5 years \$	Non- interest bearing \$	Total \$
<b>2004</b>							
<b>Financial Assets</b>							
Cash and cash equivalents		-	11,014,923	-	-	-	11,014,923
Receivables	9	-	-	-	-	4,860,444	4,860,444
Mortgage loans	7	11.84	-	289,116,647	22,464,925	-	311,581,572
Related managed investment schemes	8(a)	8.75	-	23,803,011	-	-	23,803,011
Unsecured notes	8(c)	9.00	-	15,000,000	-	-	15,000,000
Other investments	8(d)	11.75	-	15,744,819	-	-	15,744,819
			11,014,923	343,664,477	22,464,925	4,860,444	382,004,769
<b>Financial liabilities</b>							
Payables	13	-	-	-	-	(1,806,298)	(1,806,298)
Distributions payable	5	-	-	-	-	(1,417,651)	(1,417,651)
			-	-	-	(3,223,949)	(3,223,949)

**(b) Credit risk exposure**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The total credit risk for recognised items is limited to the amount carried on the statement of financial position.

The Consolidated entity minimises credit risk by:

- undertaking credit assessment procedures on prospective borrowers
- obtaining independent valuations for all loans
- maintaining loan to valuation ratios generally not exceeding 66.67%
- the insurance policy referred to in Note 6.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**19. Additional financial instruments disclosure (cont)**

As at 30 June 2005, the Scheme's investments in mortgage loans related to 58 borrowers (2004: 90), with borrowings ranging from approximately \$0.3 to \$36.2m (2004: approximately \$0.2m to \$17m).

The percentage of loans secured by mortgages over properties were divided across the following geographical regions is as follows:

	2005 %	2004 %
Queensland – metropolitan areas	4.02	10.28
Queensland – other areas	30.00	36.04
New South Wales – metropolitan areas	7.61	7.83
New South Wales – other areas	29.97	23.74
Victoria – metropolitan areas	15.55	11.20
Victoria – other areas	4.39	9.30
South Australia	0.46	1.61
	<u>100.00</u>	<u>100.00</u>

**(c) Net market values of financial assets and liabilities**

The Consolidated entity's financial assets and liabilities included in the statement of financial position are carried at amounts that approximate net market value.

**(d) Liquidity risk**

The liquidity risk associated with the need to satisfy unitholders requests for redemptions is mitigated by maintaining cash funds to satisfy the usual levels of demand

**20. Controlled entities**

Name of entity	Country of Incorporation	2005 %	2004 %
MFS Resort Asset Income Trust	Australia	100	-
MFS Resort Asset Equity Trust	Australia	100	-
BreakFree Asset Holdings Ltd	Australia	100	-
BreakFree Resorts (NSW) Pty Ltd	Australia	100	-
BreakFree Resorts Pty Ltd	Australia	100	-
Beachside Resorts Pty Ltd	Australia	100	-

BreakFree Resorts (NSW) Pty. Ltd., BreakFree Resorts Pty. Ltd. and Beachside Resorts Pty. Ltd. are 100% owned subsidiaries of BreakFree Asset Holdings Ltd. BreakFree asset Holdings Ltd. Is a wholly owned subsidiary of MFS Resort Asset Equity trust.



**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**21. Events subsequent to balance date**

There has not arisen any matter in the interval between the end of the financial period, and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years

**22. Impact of adopting Australian equivalents to International Financial Reporting Standards**

From 1 July 2005, the Scheme must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

*Transition management*

The Responsible Entity's ultimate parent has established a formal project to achieve transition to IFRS reporting for the MFS Group and the schemes it operates to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005. The group is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year. The project consists of three phases:

*Assessment and planning phase*

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS.

*Design phase*

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

*Implementation phase*

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the Scheme to generate the required reconciliations and disclosures of AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards.

The impact of transition to AIFRS including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS (being the half-year ending 31 December 2005) may vary materially from the reconciliations provided below.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**22. Impact of adopting Australian equivalents to International Financial Reporting Standards (cont).**

- changes in financial reporting requirements that are relevant to the Scheme's first complete AIFRS financial report arising from new or revised accounting standards or
- interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; or
- changes to the Scheme's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. AASB 1 provides an election not to restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Responsibility Entity's parent has elected, for the MFS Group and its schemes it operates, not to restate comparatives, therefore there will be no impacts in relation to these standards for the AIFRS transition date balance sheet (1 July 2004) or the AIFRS comparative period income statement (year ended 30 June 2005) as MFS Premium Income Fund and its controlled entities will continue to apply current Australian GAAP for the AIFRS comparative year.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set out below:

***a) Financial Liabilities and change in net asset value attributable to unitholders***

The entity expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial liabilities and change in net asset value attributable to unitholders within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

As at 1 July 2005 the expected adjustments are:

- In accordance with AASB 132, unitholders funds are "puttable instruments" and expected to be no longer classed as equity but rather as debt. Therefore, a liability must be recognised for the fair value which is redeemable as at reporting date and the changes in value recognised in the Income Statement. Unitholders funds will be disclosed as, "Net assets attributable to unitholders" measured at an amount equal to the number of units on issue multiplied by redemption price as at reporting date and the transaction costs incurred by the scheme in meeting the financial liability to unitholders. The adjustment that would be required in the consolidated entity at 1 July 2005, is expected to be a decrease in units on issue of \$535,135,683 and an increase in liabilities of \$535,135,683.
- The adjustment that would be required in the scheme at 1 July 2005, is expected to be a decrease in units on issue of \$535,135,683 and an increase in liabilities of \$535,135,683.

**MFS Premium Income Fund and its controlled entities**

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**Notes to and forming part of the financial statements  
for the year ended 30 June 2005**

**22. Impact of adopting Australian equivalents to International Financial Reporting Standards (cont).**

- Unitholders funds are expected to be classed as debt under AIFRS, and it will be necessary to recognise "distribution expense to unitholders" and "change in net asset value attributable to unitholders" in the Income Statement as an expense rather than as a change in unitholders equity.

**b) Property, plant and equipment**

The consolidated entity expects to take advantage of the election under AASB 1, at transition date, for certain items of property, plant and equipment to be recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition. There are no expected adjustments in relation to these standards the financial year ended 30 June 2005 as current Australian GAAP revaluation is considered to be the deemed cost at the date of transition to Australian equivalents to IFRS. The entity has followed Australian GAAP in accounting for changes in the fair value of investments

Under IFRS the gain or loss on the disposal of property, plant and equipment will be recognized on a net basis as a gain or loss rather than separately recognizing the consideration received as revenue. There are no expected adjustments for the consolidated entity at the 30 June 2005.

The scheme does not own any property, plant and equipment and no adjustments will be required.

**c) Impairment of Assets**

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of cost less amortisation. There are no expected adjustments in relation to impairment of assets at the 30 June 2005 as the current value of assets under Australian GAAP is considered to be the recoverable amount.

Summary of transitional adjustments:

Overall adjustments in relation to AIFRS will be reclassifications and there will be no material impact on the Statement of Financial Performance or Statement of Financial Position.

**MFS Premium Income Fund and its controlled entities**

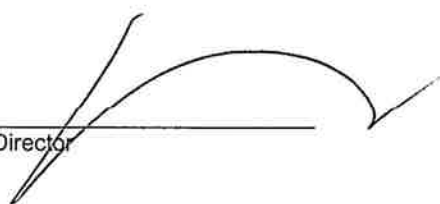
**ARSN 090 687 577**

**Director's declaration**

In the opinion of the directors of MFS Investment Management Limited, responsible entity of MFS Premium Income Fund:

1. The financial statements and notes set out on pages 5 to 27 are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Scheme and Consolidated Entity as at 30 June 2005, and of their performance, as represented by the results of its operations and cash flows for the year ended on that date; and
  - (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors of MFS Investment Management Limited.

Director 

0 6 SEP 2005  
Date



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## **MFS Premium Income Fund and its controlled entities**

**ARSN 090 687 577**

### **Independent audit report to the members of MFS Premium Income Fund and its Controlled Entities ARSN 090 687 577**

#### **Scope**

The financial report comprises the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for MFS Premium Income Fund and its Controlled Entities ("the Scheme") for the year ended 30 June 2005.

The directors of the responsible entity, MFS Investment Management Limited, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### **Audit approach**

We conducted an independent audit in order to express an opinion to the unitholders of the Scheme. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Scheme's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

#### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.



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**MFS Premium Income Fund and its controlled entities**

**ARSN 090 687 577**

**Independent audit report to the members of  
MFS Premium Income Fund and its Controlled Entities  
ARSN 090 687 577**

***Audit opinion***

In our opinion, the financial report of MFS Premium Income Fund and its Controlled Entities for the year ended 30 June 2005 is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Scheme's and Consolidated Entities financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

D M Scammell  
*Partner*

Place: Melbourne

Date: 6 September 2005



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