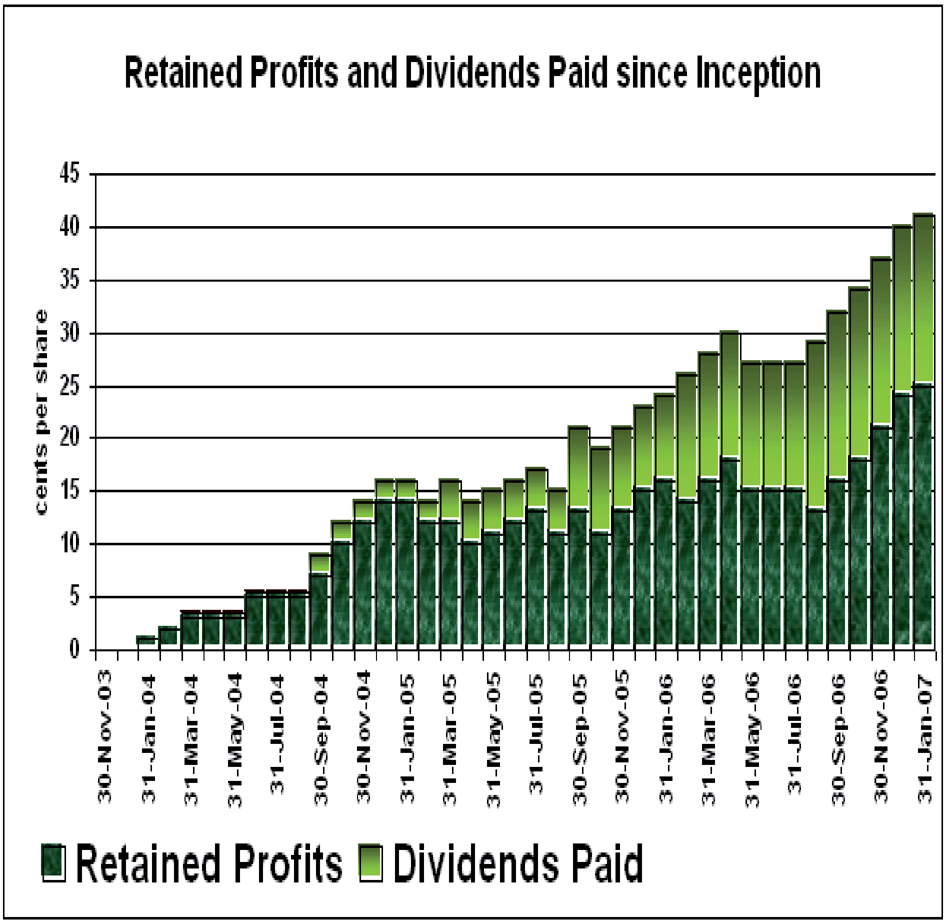
Premium Investors Limited

Investor Update

February 2007

Premium Investors is expected to release it interim results for the half year to December 2006 on 19th February, together with the amount of dividend that will be paid for the period. Of course, for Listed Investment Companies at least, the half yearly results contain no surprises. The key information in the form of basic earnings per share is published monthly through the ASX website and our own website by the 14th day of the month, and by the time the results for the half year are announced, we have already released the figures for January 2007. In our chart of Retained Profits and Dividends, the changes between any two dates represents the basic earnings per share over that period.

Over the period between 30th June 2006 and 31st January 2007, retained earnings plus total dividends paid rose from 126.9 cents to 140.9 cents, a rise of 14.0 cents per share. Our retained earnings per share stood at 24.9 cents on 31st January 2007 and underpins our strategy to pay high and consistent dividends, currently and going forward.



The internet is an important tool in assisting shareholders to manage their investments and Premium Investors have undertaken a major update of its website to better meet the needs of its shareholders. We look forward to receiving your feedback and suggestions.

Premium Investors introduced a Dividend Reinvestment Plan (DRP) in March 2005 to better meet the needs of investors seeking to grow capital rather than generate income from their portfolio. DRP's allow growth investors to gain the benefits of dividend imputation whilst allowing their capital to grow at a higher rate, and are particularly useful with investments that target a high income yield. Shareholders who wish to participate in the DRP need to complete and return the application form to Computershare by the record for the next dividend payment.

Premium Investors also introduced a Share Purchase Plan to run in parallel with the last dividend payment. The popularity of the scheme has lead your Board to offer it again with the forthcoming dividend payment. Shareholders who wish to participate will need to complete and return the enclosed application form to Computershare by 28th March 2007

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Share Purchase Plan

Premium Investors introduced a Share Purchase Plan (SPP) to operate in parallel with the Dividend Reinvestment Plan (DRP) for the dividend payment in September 2006. Like the DRP, the SPP allows shareholders to buy additional shares in the Company at the same discount to the prevailing share price as is offered under the Dividend Reinvestment Plan. The difference between the two plans is the DRP allows shareholders to reinvest part or all of their dividends whilst the SPP allows all shareholders to invest up to the same amount, irrespective of the size of their shareholding.

There are some other differences between the two plans:

- With the DRP, shareholders can nominate the shares for which they want dividends reinvested and that instruction will continue until the shareholder changes it or sells the shares.
- With the SPP, a shareholder must make a separate application each time the plan is offered and the application must be on the numbered form provided by Computershare
- The DRP has an Explanatory Booklet whilst the SPP has no documentation.
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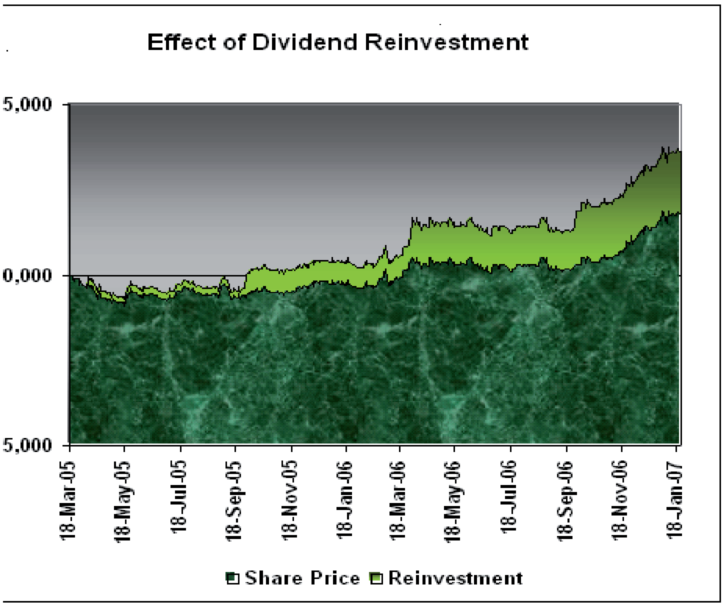
ASIC allows listed companies to invite shareholders to invest up to a further $5,000 in the Company each year without the need for the Company to produce a Prospectus or Product Disclosure Document. Your Board has decided the best approach is to offer shareholders an opportunity to invest a further $2,500 at the same time as the interim and final dividends are paid.

Dividend Reinvestment Plan

Premium Investors introduced a Dividend Reinvestment Plan (DRP) in February 2005 to cater for the needs of investors who prefer to build up their holdings in the Company rather than take dividend in cash. For shareholders who are using their investments to build capital, reinvesting dividends provides a good way to accumulate assets whilst gaining the full benefits of any franking credits attaching to the dividends.

ur chart compares the wealth accumulation of a shareholder who reinvested all dividends using Premium's DRP, with an investor who took all dividends in cash. The first dividend eligible for the Plan was paid on 7th April 2005 and our chart starts approximately two weeks before that date. Both shareholders held 10,000 shares at the then price of $1.00.



After the payment of the final dividend on 29th September 2006, our reinvesting shareholder held 11,553 shares whilst our investor who took the dividends in cash held the original 10,000 shares. Our reinvesting shareholder held shares worth $13,633 compared to the $11,800 held by our investor taking cash dividends.

All shareholders can join the DRP by completing the application form included with this newsletter. The Explanatory Booklet, which sets out the full details of the operation of the Plan is also enclosed. To participate in the Plan for the next dividend, you will need to have already joined the plan or complete the application form and return it to Computershare by the Record Date announced with the dividend.

You do not have to reinvest all of your dividends if you elect to join the DRP, the application form allows you to nominate how may shares are to be included in the Plan. Furthermore you can change your instructions on how may shares are included, or withdraw from the plan at any time, simply by notifying Computershare of your intentions. A Change in Nomination form is available on our website and Computershare is introducing a new system where you can change your nomination on-line.

The rules for Premium Investor's Dividend Reinvestment Plan provide for the Board to offer shares to shareholders at a discount to the market price. For all previous dividends eligible for the Plan, the Board has set a price determined at a 2.5% discount to the volume weighted average price calculated for the five days after the shares commence trading on an ex dividend basis. The Board will once again consider an appropriate discount when it meets to decide what the dividend payment will be.

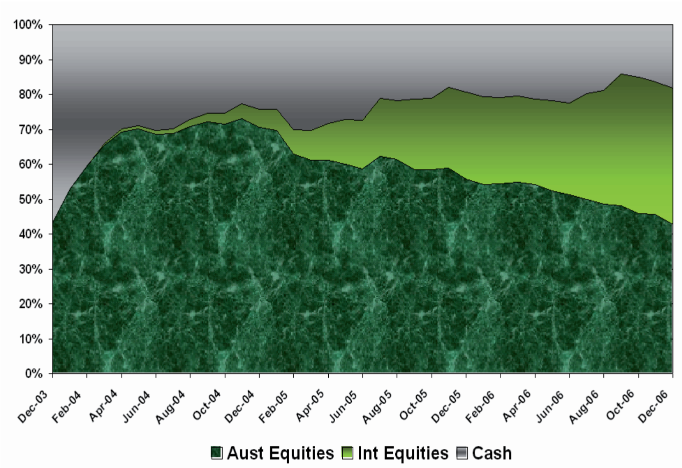
International Investments

Whilst Australia accounts for around 2% of global stockmarket capitalisation, the proportion of Australian shares the portfolio of most Australian investors is substantially higher and often accounts for all equity investments. Most investors acknowledge the benefits to be gained by diversifying their portfolios into other markets, but cite problems with accounting and foreign exchange risks as major impediments. Fully franked dividends, available from Australian shares are another reason for staying home.

Listed Investment Companies with an international portfolio take care of the accounting difficulties. Premium Investors is taxed on all income and realised capital gains and makes provision for tax on all unrealised gains. The tax Premium pays can then be returned to shareholders in the form of fully franked dividends. Exposure to foreign investments has no impact on the ability to pay fully franked dividends.

As shown in the chart, Premium Investors has gradually built its exposure to international markets, and currently holds around the same amount in foreign investments as it does in Australian equities. Three of the investment mandates are with managers with an international focus.

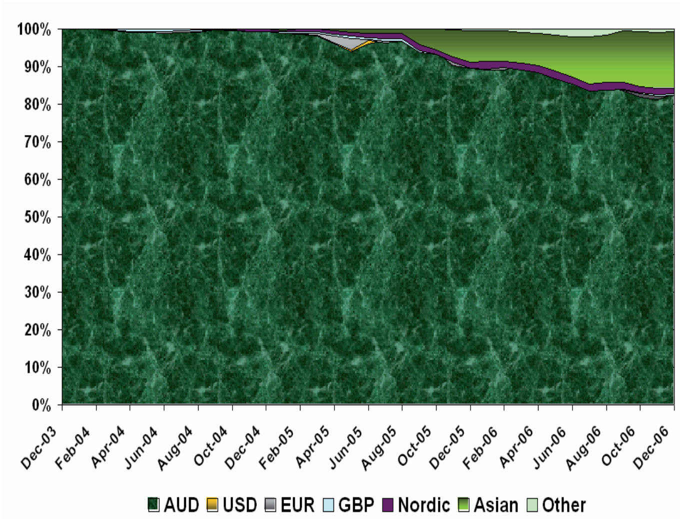
Premium's Asset Allocation



Movements in foreign exchange rates can make a big difference to investment returns from foreign markets. During periods of weakness in the Australian dollar, windfall returns can be made from foreign investments, only to see the gains evaporate when the currency strengthens. Investments that perform well in their local currency can perform badly when measured in Australian dollars. The additional volatility that arises from foreign exchange exposure contrasts with the absolute return approach adopted by Premium Investors.

Global Value Investors and RARE have both adopted a policy of substantially hedging their foreign currency exposures and do so by buying forward. When Australian interest rates are higher than the interest rate in the currency being exchanged, the interest rate difference flows into extra income for the investment portfolio. Treasury Asia Asset Management only invests in the Asian markets excluding Japan, and in this region the currencies are widely recognised as undervalued. Hedging is not used for these investments, with the result that the portfolio does carry some exposure to Asian currencies. The following chart sets out the history of currency exposure for Premium Investors.

Premium's Currency Exposure



A New Website

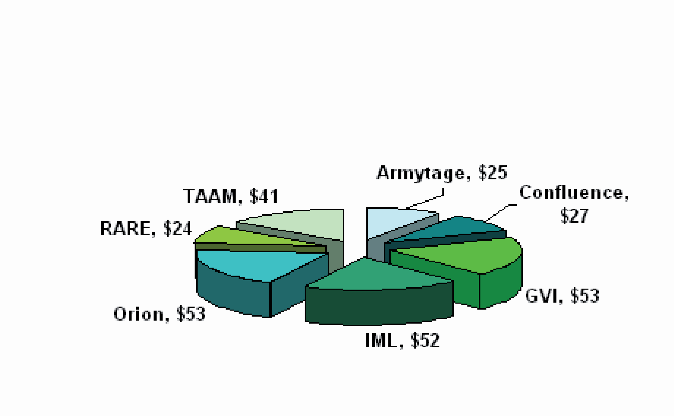
The internet has emerged as a major force in communications in recent years and its dominance can only increase. The key advantages of the internet over paper documents are:

- Navigation systems which guide you to the information you want
- Interactivity, where you can manage your affairs on-line.

Computershare acts as the share registrar for Premium Investors and takes responsibility for all shareholder recordkeeping, the payment of dividends and distribution of printed materials to shareholders. For many of your questions about your shareholding, you will need to deal directly with Computershare, but for information about Premium Investors, our management are the people to talk to, and our new website is targeted at meeting most of your needs for information.

Diversification

The absolute return approach taken by Premium Investors is designed to protect the portfolio against downturns in individual markets, and importantly to protect our ability to pay a high level of fully franked dividends to shareholders. There are three elements to the approach:



- a) Investment mandates which provide the scope for the investment manager to take a view on the market outlook

  b)Geographic diversification of the portfolio

  c)Diversification between industry focus and management styles.

Dividends are payable out of retained profits, and under Australian International Financial Reporting Standards, any downturn in the value of investments will reduce the level of retained profits. Since listing, Premium Investors has built retained profits as a source of future dividends and these profits need to be protected by a conservative approach to investment.

Premium Investors implements its investment strategy through giving investment mandates boutique investment managers who specialise in particular markets or investment sectors and who have distinct and different investment styles.

Investors Mutual applies a fundamental investment style to the Australian market, whilst Orion has a growth orientation. Confluence invests in smaller companies, whilst Armytage uses a buy write strategy over the leaders. For international investments, Treasury Asia focuses on the Asian Pacific Region whilst, Global Value Investors focuses on high yielding stocks in the developed world. RARE invests in infrastructure in both the Australian and international markets.

Industry Groups and Geographic Distribution as at 31st January 2007

	Aust	Japan	Asia ex Japan	US	UK	Europe	Total	S&P/ASX300
Energy	**4.0**	**0.0**	**0.8**	**1.1**	**0.0**	**1.2**	**7.1**	**4.4**
Materials	**10.9**	**0.0**	**0.3**	**0.6**	**0.6**	**2.0**	**14.4**	**19.7**
Industrials	**9.0**	**0.0**	**5.3**	**0.6**	**0.0**	**3.7**	**18.6**	**9.7**
Consumer Discr.	**6.1**	**0.0**	**1.3**	**0.5**	**0.0**	**2.1**	**10.0**	**5.4**
Consumer Staples	**1.4**	**0.0**	**0.7**	**0.0**	**0.3**	**0.7**	**3.1**	**6.5**
Healthcare	**1.3**	**0.0**	**0.2**	**0.4**	**0.9**	**1.0**	**3.8**	**3.2**
Financials ex Prop	**11.4**	**0.0**	**4.4**	**0.2**	**0.3**	**1.0**	**17.3**	**33.2**
Property	**4.3**	**0.0**	**3.9**	**0.0**	**0.0**	**0.0**	**8.2**	**11.4**
Information Tech	**0.8**	**0.0**	**2.1**	**0.0**	**0.0**	**0.0**	**2.9**	**0.7**
Telecommunications	**1.8**	**0.0**	**0.8**	**0.4**	**0.7**	**2.5**	**6.2**	**3.7**
Utilities	**2.3**	**0.0**	**1.0**	**1.4**	**0.0**	**3.7**	**8.4**	**2.0**
Total	**53.3**	**0.0**	**20.8**	**5.2**	**2.8**	**17.9**	**100.0**	

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