Pengana Managers Limited

ACN 108 437 592

Financial Report

for the year ended 30 June 2005

PENGANA

Directory

REGISTERED OFFICE

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SYDNEY NSW 2000

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DIRECTORS OF PENGANA MANAGERS LIMITED

Roger Davis (Chairman)
George Foster (Resigned 12 July 2005)
Mark Beames
Dean Smorgon
Russel Pillemer
Damien Hatfield

COMPANY SECRETARY

Andrew Blencowe

SHARE REGISTRY

Registries Limited
28 Margaret Street
SYDNEY NSW 2000

AUDITOR

Ernst & Young
680 George Street
SYDNEY NSW 2000

INVESTMENT MANAGER

Pengana Capital Limited
Level 29
20 Bond Street
SYDNEY NSW 2000

Contents

Directors' Report

The Directors of Pengana Mangers Limited (the "Company") submit their report for the consolidated entity consisting of Pengana Managers Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005. It is recommended that this Annual Financial Report be read in conjunction with the Annual Financial Reports of Pengana Managers Group and Pengana Managers Trust as at 30 June 2005. It is also recommended that the report be considered together with any public pronouncements made by the Pengana Managers Group in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Roger Davis, BEc(Hon) CPA BPhil (Oxon)
Non-Executive Director, Chairman and a member of the Audit and Risk Committee

Roger Davis is currently a Consulting Director at N M Rothschild & Sons (Australia) Limited. He has had an extensive career in international financial services with 25 years experience in banking and investment banking in Australia, Japan and the USA. This includes over 20 years with Citigroup, where he was a Division Executive and Managing Director and more recently with ANZ, where he was a Group Managing Director and a member of the Bank's Executive Management Committee.

He is a qualified CPA, a Director of Macquarie Office Management Limited, Foodbank Australia Limited, Aristocrat Leisure Limited and Chair of Korea Exchange Bank Australia Limited. His previous experience includes the Chairmanship of Esanda Ltd and Directorships of Cititrust (Japan), ANZ Banking Group (NZ) Ltd and Citicorp Securities Inc.

George Foster, BEc(Hon) MEc Phd (Resigned 12 July 2005)
Non-Executive Director

George is the Wattis Professor of Management at the Graduate School of Business, Stanford University in the USA and currently directs the Stanford Executive Program for Growing Companies, the Stanford/YEO Program and the National League Executive Program. He is currently on the boards of Allen & Buckeridge and Sensory Networks. Previous boards include BlueGum Technologies, Authentic8, Core Digital and Active Sky. His areas of expertise include corporate valuation, financial statement analysis, venture capital/entrepreneurship, and sports business management. He is actively involved with early stage companies and venture capital in both Australia and the USA.

Mark Beames, BBus FCA MAICD
Non-Executive Director and Chairman of the Audit and Risk Committee

Mark is a banking, investment and financial services professional with over 17 years experience in the international investment funds and securities industries. He is a Fellow of the Institute of Chartered Accountants in Australia and is a Director of a number of hedge fund companies. Mark spent 15 years at Fortis Bank in Hong Kong, and was a member of the Management Committee of Fortis Bank North Asia. Prior to joining Fortis Bank Mark spent 10 years with PricewaterhouseCoopers in Australia and Hong Kong.

Dean Smorgon, BEc
Non-Executive Director and a member of the Audit and Risk Committee

Dean is currently an Associate Director with ABN Amro Morgans. He is a senior financial advisor with more than 14 years experience in the Australian financial markets.

Directors' Report (continued)

Russel Pillemer, BCom(Hon) CA
Director

Russel is currently a Director and Chief Executive Officer at Pengana Capital Limited and Director at Centrestone Wealth Advisory Group and Australian Life Insurance Group. Russel was previously a Vice President at Goldman Sachs & Co. Based in New York and Sydney he worked in the Financial Institutions Group, specialising in mergers and acquisitions, capital raisings and the provision of general strategic advice to a wide range of financial institutions including asset managers, banks, insurance and finance companies. Prior to joining Goldman Sachs Russel worked in the Corporate Advisory divisions of CS First Boston and Ernst & Young.

Damien Hatfield, BBus
Director

Damien is currently Head of Hedge Funds at Pengana Capital Limited. Prior to joining Pengana Damien worked at Colonial First State as Head of Hedge Funds. He has substantial experience in hedge funds and managed futures, having worked with Basis Capital, Deutsche Bank (Australia), Deutsche Securities (Hong Kong), and ANZ McCaughan. Damien was the founder and ex-Chairman of the Asia Pacific Managed Futures Association and has sat on various committees related to the US based Managed Funds Association. He is a former Chairman of the Australian Chapter of the UK-based Alternative Investment Management Association (AIMA).

Company Secretary

Andrew Blencowe, BCom CA Dip. Law (LPAB) CFP

Andrew is a qualified Chartered Accountant, Solicitor and Certified Financial Planner. His experience includes 20 years as an accountant in public practice.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors in the shares of Pengana Managers Limited were:

Securities held in Pengana Managers Limited (number)

	Balance 1 July 04	Net Change	Balance 30 June 05
Roger Davis	40,000	-	40,000
Mark Beames	50,000	10,000	60,000
Dean Smorgon	20,000	-	20,000
Russel Pillemer	1,000,000	33,200	1,033,200
Damien Hatfield	15,000	-	15,000
Total	1,125,000	43,200	1,168,200

Directors' Report (continued)

CORPORATE INFORMATION

Nature of operations and principal activities

The principal activity of Pengana Managers Limited during the year was to operate as a fund of hedge funds, investing in single strategy hedge funds managed by boutique fund managers. It's aim is to provide investors with portfolio diversification, access to a number of different hedge fund strategies with reduced risk on investment.

Corporate structure

Pengana Managers Limited is a company limited by shares that is incorporated and domiciled in Australia. It is listed on the official list of Australian Stock Exchange Limited (ASX), together with Pengana Managers Trust as a stapled security. Pengana Managers Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The Company's investment portfolio during the year ended 30 June 2005 consisted of four Australian unit trusts that serve as feeder funds to Cayman Islands domiciled mutual funds. The Company's recent inception and the fact that the Company invests in new or recently formed funds has resulted in the Company having a controlling interest in all four unit trusts held and in the underlying Cayman Islands domiciled mutual funds. The entities controlled by the Company, both directly and indirectly, at the end of or during the reporting period are shown below.

Australian Unit Trusts		Direct Ownership at 30 June 2005
Percon Managed Futures Unit Trust	(a)	0%
Camelotfund Global Macro Unit Trust	(b)	0%
Cape Leeuwin Capital Australian Long Short Equity Unit Trust		94%
Stanley Global Resources Market Neutral Unit Trust		100%

Underlying Cayman Islands Domiciled Mutual Funds		Indirect Ownership at 30 June 2005
Percon Managed Futures Fund	(a)	0%
Camelotfund Umbrella Fund (formerly known as Camelotfund Global Macro Fund)	(b)	0%
Cape Leeuwin Capital Australian Long Short Equity Fund		94%
Stanley Global Resources Market Neutral Fund		100%

a) The Company fully redeemed its interest in Percon Managed Futures Unit Trust on 26 May 2005, thereby ceasing to own shares in Percon Managed Futures Fund. The Company had a 100% direct interest in the Trust and a 100% indirect interest in the Fund prior to redemption.

b) The Company fully redeemed its interest in Camelotfund Global Macro Unit Trust on 1 June 2005, thereby ceasing to own shares in Camelotfund Umbrella Fund. The Company had a 81% direct interest in the Trust and a 81% indirect interest in the Fund prior to redemption.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Performance Indicators

The Board, together with the investment manager, monitor performance on a regular basis. Critical sets of financial results include fund performance as measured by movements in net asset values of the underlying Cayman Islands domiciled mutual funds and the Company's net tangible asset backing as reported on a monthly basis to the Australian Stock Exchange (ASX).

Dynamics of the Business

The Company commenced operations in June 2004 with initial indirect investments of $7 million per fund in three distinctly different hedge funds namely Percon Managed Futures Fund, Camelotfund Umbrella Fund (formerly known as Camelotfund Global Macro Fund) and Cape Leeuwin Capital Australian Long Short Equity Fund.

In November 2004 the Company invested an additional $7 million in Stanley Global Resources Market Neutral Fund via Stanley Global Resources Market Neutral Unit Trust. This fund invests long and short in listed resource companies in developed markets.

In April 2005 the Company announced a restructuring of its investment portfolio. From 1 July 2005 the Company has adopted a two tier structure: Tier 1 investments are managed by managers who have demonstrated an ability to generate consistent performance and have attracted external assets, while Tier 2 investments are managed by managers who are less proven or require more time to generate their track record. Tier 1 investments will receive the bulk of the Company's investment capital. Tier 2 investments will receive reduced allocations and, where appropriate, utilise investment structures that are more efficient for smaller funds.

As a part of the restructure, investments in Percon Managed Futures Unit Trust and Camelotfund Global Macro Unit Trust were fully redeemed, the investment in Stanley Global Resources Market Neutral Unit Trust was partially redeemed and an investment was made in Pengana Absolute Return Real Estate Unit Trust at 1 July 2005.

The table below details the performance of the Company's hedge fund investments during the year:

	Cape Leeuwin	Camelotfund	Percon	Stanley	Total Investments
Jul-04 *	0.0%	1.0%	0.2%	-	0.3%
Aug-04	-3.6%	-0.6%	2.6%	-	-0.5%
Sep-04	1.0%	-1.7%	-3.1%	-	-1.3%
Oct-04	2.3%	1.9%	-1.4%	-	0.9%
Nov-04	4.2%	1.3%	0.8%	-0.0%	1.6%
Dec-04	2.4%	-1.2%	0.8%	0.2%	0.7%
Jan-05	0.7%	1.0%	-2.7%	-0.9%	-0.6%
Feb-05	1.0%	-0.8%	0.3%	-1.5%	-0.2%
Mar-05	-1.7%	-1.6%	-1.4%	-0.7%	-1.4%
Apr-05	0.6%	-2.1%	-0.3%	-2.2%	-1.0%
May-05	1.4%	-2.7%	2.0%	-1.2%	-0.1%
Jun-05	1.0%	-	-	0.5%	0.4%
Financial Year	9.5%	-5.5%	-2.4%	-5.8%	-1.3%

* part month

Operating Results for the Year

The operating loss of the consolidated entity for the year ended 30 June 2005, after providing for income tax amounted to $1,115,000 (2004: $104,000).

Directors' Report (continued)

Review of Financial Condition

During the year the Company did not undertake any equity raising activities and had no loan facilities as at the reporting date. Moving forward the Company intends to have a gearing level of between 0 to 33%.

REVIEW OF OPERATIONS

Treasury Policy

The Investment Manager is responsible for managing the Groups' currency risks and finance facilities. The Investment Manager operates within policies set by the Board.

Risk Management

The Company has established an Audit and Risk Committee (the "Committee") to provide assistance to the Board in fulfilling its responsibilities in relation to the Company's financial reporting, risk management systems and the external audit function. In discharging its role, the Committee is empowered to investigate any matter brought to its attention with full access to all books and records of the Company and all facilities and personnel of Pengana Capital Limited. The Committee is empowered to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The duties and responsibilities of the Committee include:

1. Financial Reporting – To review the Company's financial reporting process including the review of certain material required to be provided publicly (ie monthly Net Tangible Asset calculations, half-yearly reports and annual reports).

2. Risk Management Systems – To review the Company's risk management policies and framework relating to strategic risks, investment risks, operational, legal and regulatory risks.

3. External Audit Function To oversee the relationship with the Company's External Auditors. The Committee shall review the overall scope and results of the external audit, review and assess the independence of the External Auditor, and make recommendations to the Board on the appointment, removal and remuneration of the External Auditors.

The Committee has developed a risk management policy to create an environment in which the risks faced by the Company are clearly identified, measured, understood, monitored and controlled. The aim of this document is to formalise and communicate the Company's approach to risk and how it manages it. The document describes the role of key bodies and individuals in the management process, establishes a risk profile for the Company and explains the processes in place to monitor and control those risks.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Pengana Managers Limited restructured its investment portfolio during the year. The restructure involved the implementation of a two tier manager allocation process whereby at least two thirds of the Company's investment capital is invested in funds managed by proven tier one managers and the remainder of the Company's investment capital is invested in funds managed by less proven tier two managers. The restructure involved:

- a full redemption of the Company's investments in Percon Managed Futures Unit Trust and Camelotfund Global Macro Unit Trust. The Company plans to allocate substantially reduced amounts of investment capital to these managers after the date of this report, and
- a partial redemption of the Company's investment in Stanley Global Resources Market Neutral Unit Trust.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company invested $15 million in Pengana Absolute Return Real Estate Unit Trust.

The Company is in the process of establishing a separate account with a broker into which $1.4 million will be deposited. The Company will enter into separate investment management agreements ("managed accounts") with Camelotfund Australia Pty Limited and Percon Capital Pty Limited.

There have been no other significant events that occurred after balance date that may affect either the Company's operations or results of those operations or its state of affairs that have not been disclosed already in this report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors have excluded from this report any other information on the likely developments in the operations of the Company and the expected results of those operations in future financial years, as the Directors believe that such disclosures would be likely to result in unreasonable prejudice to the operations of the Company.

ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulation under either Commonwealth, State or Territory legislation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Pengana Managers Limited has paid an insurance premium in respect of a contract insuring its Directors and Secretary. The terms of this policy prohibit disclosure of the nature of the risks insured and the premiums paid.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors of Pengana Managers Limited. The Company does not employ any executive staff.

Remuneration philosophy

The performance of the Company depends upon the quality of its Directors. To prosper, the company must attract, motivate and retain highly skilled Directors.

Remuneration committee

Due to the size and nature of the Company, a separate Remuneration Committee of the Board has not been created. The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of Directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board.

Directors' Report (continued)

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. No such determination has been made by an Annual General Meeting as the company is yet to hold its first AGM, which is scheduled for 15 September 2005.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors will be reviewed annually. The board will consider advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Non-executive Directors receive fixed fees, which include superannuation for being directors of the company.

Directors other than non-executive Directors have not received any director's fees from Pengana Managers Limited.

As previously noted the Company does not employ any executives (or managers) and therefore there is no requirement to report on the remuneration (fixed or otherwise) of the 5 most highly remunerated senior managers.

Director remuneration for the year ended 30 June 2005 was as follows:

	Primary			Post employment		Equity	Other benefits	Total
Director	**Salary & Fees**	**Cash Bonus**	**Non-monetary**	**Super-annuation**	**Retirement benefits**	**Options**		
	$	$	$	$	$	$	$	$
Roger Davis								
2005	55,046	-	-	4,954	-	-	-	60,000
2004	13,761	-	-	1,239	-	-	-	15,000
George Foster								
2005	60,000	-	-	-	-	-	-	60,000
2004	15,000	-	-	-	-	-	-	15,000
Mark Beames								
2005	36,697	-	-	3,303	-	-	-	40,000
2004	9,174	-	-	826	-	-	-	10,000
Dean Smorgon								
2005	36,697	-	-	3,303	-	-	-	40,000
2004	9,174	-	-	826	-	-	-	10,000
Russel Pillemer*								
2005	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
Damien Hatfield*								
2005	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
Total								
2005	188,440	-	-	11,560	-	-	-	200,000
2004	47,109	-	-	2,891	-	-	-	50,000

* Directors are not paid by Pengana Managers Limited or any related parties.

Directors' Report (continued)

DIRECTORS' MEETINGS

The number of meetings of Directors of the Company, including meetings of the Audit and Risk Committee held during the year and the number of meetings attended by each Director were as follows:

	Board	Audit and Risk Committee
Number of meetings held:	7	5
Number of meetings attended:		
Roger Davis	7	5
Mark Beames	7	5
Dean Smorgon	6	4
George Foster	6	-
Russel Pillemer	7	-
Damien Hatfield	6	-

Committee membership

As at the date of this report, the Company had an Audit and Risk Committee. Members of the Committee during the year were:

Mark Beames, Chairman
Roger Davis
Dean Smorgon

ROUNDING

The amounts contained in this report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the consolidated entity under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The Directors received an Auditor's Independence Declaration from the auditor of Pengana Managers Limited which is shown on page 10.

Directors' Report (continued)

NON-AUDIT SERVICES

The following non-audit service was provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit service is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of the non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Assistance with preparation of Audit and Risk Committee Charter	$5,000

Signed in accordance with a resolution of the directors:

Pengana Managers Limited (ABN 59 108 437 592)

Roger Davis
Chairman

Russel Pillemer
Director

Sydney, 23 August 2005

ERNST & YOUNG

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Australia

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DX Sydney Stock
Exchange 10 [illegible]

Auditor's Independence Declaration to the Directors of Pengana Managers Limited

In relation to our audit of the financial report of Pengana Managers Limited for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney

9th August 2005

Consolidated Statement of Financial Performance

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED June 05 $'000	CONSOLIDATED Period from 19 March to 30 June 04 $'000	PARENT ENTITY June 05 $'000	PARENT ENTITY Period from 19 March to 30 June 04 $'000
REVENUES FROM ORDINARY ACTIVITIES	2	2,173	75	782	65
AMORTISATION EXPENSES		(181)	-	-	-
OTHER EXPENSES FROM ORDINARY ACTIVITIES	3	(3,161)	(179)	(1,887)	(179)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,169)	(104)	(1,105)	(114)
Company income tax expense	4	-	-	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(1,169)	(104)	(1,105)	(114)
NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTERESTS		54	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF PENGANA MANAGERS LIMITED	11	(1,115)	(104)	(1,105)	(114)
ADJUSTMENTS ATTRIBUTABLE TO MEMBERS AND RECOGNISED DIRECTLY IN EQUITY					
Share issue costs		2	(1,569)	2	(1,569)
Increase/(Decrease) in investment revaluation reserve		-	-	(10)	10
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH MEMBERS AS OWNERS		(1,113)	(1,673)	(1,113)	(1,673)
Basic and diluted earnings per share	13	($0.0367)	($0.0507)		

Consolidated Statement of Financial Position

AS AT 30 JUNE 2005		CONSOLIDATED		PARENT ENTITY	
		June 05	June 04	June 05	June 04
	Notes	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash assets	12(b)	28,507	30,167	16,978	9,167
Receivables	6	638	73	659	63
Prepayments		40	-	34	-
Investments	8	7,820	-	-	-
Loans	7	11	-	11	-
Other		114	-	-	-
TOTAL CURRENT ASSETS		37,130	30,240	17,682	9,230
NON - CURRENT ASSETS					
Investments	8	-	-	9,875	21,010
Loans	7	194	-	194	-
TOTAL NON-CURRENT ASSETS		194	-	10,069	21,010
TOTAL ASSETS		37,324	30,240	27,751	30,240
CURRENT LIABILITIES					
Payables	9	9,252	1,519	143	1,519
TOTAL CURRENT LIABILITIES		9,252	1,519	143	1,519
TOTAL LIABILITIES		9,252	1,519	143	1,519
NET ASSETS		28,072	28,721	27,608	28,721
EQUITY					
Contributed equity	10	28,827	28,825	28,827	28,825
Accumulated losses	11 (b)	(1,219)	(104)	(1,219)	(114)
Investment Revaluation Reserve	11 (a)	-	-	-	10
Outside Equity Interest		464	-	-	-
TOTAL EQUITY		28,072	28,721	27,608	28,721

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2005	Notes	Consolidated June 05 $'000	Consolidated Period from 19 March to 30 June 04 $'000	Parent Entity June 05 $'000	Parent Entity Period from 19 March to 30 June 04 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		802	65	127	65
Dividends and distributions received		343	-	-	-
Other income		4	-	-	-
Administration and general expenses paid		(2,689)	-	(923)	-
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	12(a)	(1,540)	65	(796)	65
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of controlled entities	12(c)	-	-	(7,000)	(21,000)
Proceeds from sale of controlled entities	12(d)	-	-	13,427	-
Proceeds from sale of investments		-	-	3,724	-
Proceeds from trading securities		141,079	-	-	-
Payments for trading securities		(140,122)	-	-	-
Loans advanced		(210)	-	(210)	-
Proceeds from loan repayments		4	-	4	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		751	-	9,945	(21,000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issue of units in controlled Australian unit trusts		2,450	30,395	-	30,395
Repurchase of units in controlled Aust. unit trusts		(1,585)	-	-	-
Payment of share issue costs		(1,338)	(293)	(1,338)	(293)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		(473)	30,102	(1,338)	30,102
NET (DECREASE)/INCREASE IN CASH HELD		(1,262)	30,167	7,811	9,167
Add opening cash brought forward		30,167	-	9,167	-
Effects of exchange rate changes on cash		(398)	-	-	-
CLOSING CASH CARRIED FORWARD	12(b)	28,507	30,167	16,978	9,167

Notes to the Financial Statements

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention except for investments which are carried at fair value.

The accounting policies adopted are consistent with those of the previous period.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of Pengana Managers Limited and its controlled entities referred to collectively throughout these financial statements as the "consolidated entity" or the "Company".

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(c) Cash and cash equivalents

Cash assets comprise cash on hand and in banks, short-term deposits, cash held in broker accounts and cash in transit and are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(d) Receivables

Receivables may include amounts for trust distributions, interest, GST recoverable from the Australian Taxation Office and amounts due from investments sold. Interest is accrued at the reporting date from the time of last payment.

Notes (continued)

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments

Non-current Investments held by Pengana Managers Limited are initially brought to account at cost and are revalued to market values on a monthly basis. Increments and decrements are taken to the Investment Revaluation Reserve while it has a positive balance in total, otherwise they are included in net profit. Where disposal of an investment occurs any revaluation increment or decrement relating to it is transferred from the Investment Revaluation Reserve to the Asset Realisation Reserve while this reserve has a positive balance in total, otherwise they are included in net profit.

Market value for the purpose of valuing non-current investments is determined from the net asset value of non-listed entities.

No provision for any potential capital gains tax is made when non-current investments are revalued. Capital gains tax is provided for in the period which an asset is sold.

Current investments are classified as held for trading, with changes in fair value reflected in the income statement. Listed securities are valued at their last bid price on the valuation date. Securities sold but not yet purchased are valued at their closing "asked" price. Realised and unrealised gains and losses are reflected in the income statement. Derivative transactions are recorded at fair value. Fair values are determined by using quoted market values when available. Otherwise, fair values are based on industry-accepted models or based on fair values provided by counterparties.

Securities sold but not yet purchased represent obligations of the consolidated entity to purchase the security in the market at prevailing prices to the extent that the consolidated entity does not already have the securities in possession. Accordingly, these transactions result in off-balance sheet risk as the consolidated entity's satisfaction of the obligations may exceed the amount recognised in the balance sheet.

(f) Loans

All loans are measured at the principal amount plus interest accrued. Interest is recognised as income as it accrues.

(g) Payables

Payables represent liabilities to creditors for goods and services provided to the consolidated entity, whether or not billed, and are unpaid as at the end of the financial year. The amounts are non-interest bearing and are normally settled on 30 day terms.

(h) Dividends

A provision for dividends is made when declared, determined or publicly recommended by the Directors on or before the reporting date but not distributed at balance date.

(i) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity.

Any transaction costs arising on the issue of the shares are recognised directly in equity as a reduction of the proceeds received.

Notes (continued)

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Foreign currencies

Transactions in foreign currencies of entities within the consolidated entity are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date foreign currency monetary items are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining profit or loss for the year.

Foreign controlled entities
The activities undertaken by the Cayman Islands domiciled mutual funds are integrated with the activities of the controlled Australian unit trusts. The assets, liabilities and equity of the Cayman Islands funds are consolidated into the controlled Australian entities using the temporal method of translation whereby non-monetary assets and liabilities and equity items including revenue and expenses are translated using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expenses.

(k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Investment Income
Changes in the fair value of investments for the consolidated entity are recognised as revenue or expenses in the statement of financial performance in the year in which the changes occur.

Interest
Interest revenue is recognised on an accruals basis taking into account the interest rates applicable to the financial assets.

Dividends and distributions
Dividends and distributions are recognised on an accruals basis when control of the right to receive the dividend and distribution payment belongs to the consolidated entity.

(l) Taxes

Company income taxes
Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST except:

Notes (continued)

30 JUNE 2005

- Where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Receivables and payables are stated with the amount of GST included.

The net amount of GST receivable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the Australian Taxation Office.

Capital gains tax is provided for in the period which an asset is sold.

(m) Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of shares on issue at the end of the year.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(n) Comparatives

Pengana Managers Limited was incorporated on 19 March 2004. Accordingly comparatives for the Statement of Financial Performance and Statement of Cash Flows are for the period from 19 March 2004 to 30 June 2004.

(o) Amortisation of organisational costs

The Cayman Islands domiciled mutual funds capitalise organisational costs and amortise such costs over a period of 36 months.

Notes (continued)

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	CONSOLIDATED		PARENT ENTITY	
	June 05 $'000	Period from 19 March to 30 June 04 $'000	June 05 $'000	Period from 19 March to 30 June 04 $'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Interest received on cash held at banks and with brokers	890	75	138	65
Dividends received from trading securities	371	-	-	-
Trust distributions	-	-	641	-
Net foreign exchange gains	850	-	3	-
Foreign exchange differences on translation	2	-	-	-
Other	60	-	-	-
Total revenues from operating activities	2,173	75	782	65
3. EXPENSES FROM ORDINARY ACTIVITIES				
Expenses arising from trading securities:				
Bank and broker charges	461	-	-	-
Dividends on short sales	312	-	-	-
Management fees	759	-	292	-
Performance fees	189	-	-	-
Fund administration expenses	168	-	-	-
Custody fees	76	-	-	-
Net changes in market value of investments	352	-	974	-
Directors remuneration	243	50	200	50
Insurance	92	-	92	-
Audit fees	77	7	50	7
Legal fees	85	98	76	98
Risk management systems	71	-	71	-
Expense paid on behalf of Pengana Managers Trust	27	-	27	-
Other	249	24	105	24
Total expenses from ordinary activities	3,161	179	1,887	179

Notes (continued)

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	CONSOLIDATED		PARENT ENTITY	
		Period from 19 March to		Period from 19 March to
	June 05	30 June 04	June 05	30 June 04
	$'000	$'000	$'000	$'000
4. INCOME TAX				
The prima facie tax on loss, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:				
Prima facie tax on loss from ordinary activities	(351)	(31)	(332)	(34)
Net non-assessable income and non-deductible expenses	(88)	30	23	30
Deductible business establishment and equity raising costs	(104)	(100)	(104)	(100)
Timing differences	111	13	109	16
Distributions	(204)	-	-	-
Current year tax loss	636	88	304	88
Income tax expense attributable to ordinary activities	-	-	-	-
Deferred tax assets and liabilities				
Future income tax benefit not recognised	645	102	517	105

Future income tax benefits arising from tax losses and timing differences are not recognised at reporting date as realisation of the benefit is not regarded as virtually certain.

This future income tax benefit will only be obtained if:

a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

b) the conditions imposed for deductibility imposed by tax legislation continue to be complied with; and

c) no changes in tax legislation adversely affect the Company realising the benefit.

Notes (continued)

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		CONSOLIDATED		PARENT ENTITY	
		June 05 $'000	June 04 $'000	June 05 $'000	June 04 $'000
5. DIVIDENDS PAID OR PROVIDED FOR ON SHARES					
(a) Dividends					
There were no dividends paid or payable during the year.					
(b) Franking credit balance					
The amount of franking credits available for the subsequent financial year are:					
- franking account balance as at the end of the financial year at 30%		-		-	
- franking credits that will arise from the payment of income tax payable as at the end of the financial year		-		-	
		-		-	

6. RECEIVABLES

		CONSOLIDATED June 05 $'000	CONSOLIDATED June 04 $'000	PARENT ENTITY June 05 $'000	PARENT ENTITY June 04 $'000
GST	(i)	8	63	6	63
Interest	(ii)	88	10	11	-
Trust distributions	(iii)	-	-	641	-
For investments sold		540	-	-	-
Other		2	-	1	-
		638	73	659	63

Terms and conditions

(i) GST recoverable from the Australian Taxation Office is usually received within two months from the end of each quarter.

(ii) Interest is received monthly.

(iii) Trust distributions are usually received within 2 months from the end of the financial year.

Notes (continued)

30 JUNE 2005

		CONSOLIDATED		PARENT ENTITY	
		June 05	June 04	June 05	June 04
		$'000	$'000	$'000	$'000
7. LOANS					
Current					
Loan to Camelotfund Australia Pty Limited	(a)	11	-	11	-
Non-current					
Loan to Camelotfund Australia Pty Limited	(a)	194	-	194	-

(a) Terms and conditions

(i) Interest is calculated and accrued monthly.

(ii) Repayment date is 14 July 2006.

(iii) The loan is supported by a Loan and Guarantee Deed between Pengana Managers Limited, Camelotfund Australia Pty Ltd and the principals of Camelotfund Australia Pty Ltd in their capacity as Guarantors.

8. INVESTMENTS

Current investments					
Trading securities		7,820	-	-	-
Non-current investments					
Investments in subsidiaries - unlisted unit trusts	(a)	-	-	9,875	21,010
		-	-	9,875	21,010

(a) Interests in subsidiaries

	% of equity interest held by the Company		Investment	
	June 05	June 04	June 05	June 04
Name	%	%	$'000	$'000
Percon Managed Futures Unit Trust	-	100	-	7,003
Camelotfund Global Macro Unit Trust	-	100	-	7,003
Cape Leeuwin Capital Australian Long Short Equity Unit Trust	94	100	6,898	7,004
Stanley Global Resources Market Neutral Unit Trust	100	-	2,977	-
			9,875	21,010

Notes (continued)

30 JUNE 2005

		CONSOLIDATED		PARENT ENTITY	
		June 05 $'000	June 04 $'000	June 05 $'000	June 04 $'000
9. PAYABLES					
Management & performance fees		132	-	-	-
Dividends payable on shares sold short		48	-	-	-
Audit fees		62	7	40	7
Share issue costs payable		-	1,340	-	1,340
Other creditors	(a)	237	172	103	172
Payables on investment settlements outstanding		3,304	-	-	-
Investments sold short		5,469	-	-	-
		9,252	1,519	143	1,519

(a) Other creditors are non-interest bearing and are normally settled on 30 day terms.

10. CONTRIBUTED EQUITY

	CONSOLIDATED June 05 $'000	CONSOLIDATED June 04 $'000	PARENT ENTITY June 05 $'000	PARENT ENTITY June 04 $'000
(a) Issued shares	28,827	28,825	28,827	28,825

(b) Movements in contributed equity for the year

	June 05 Shares on issue		June 04 Shares on issue	
	Number '000	Value $'000	Number '000	Value $'000
Beginning of the financial year	30,395	28,825	-	-
Public equity raising during the year	-	-	30,395	30,395
Net transaction costs	-	2		(1,570)
End of the financial year	30,395	28,827	30,395	28,825

(c) Terms and conditions of contributed equity

Shareholders have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Notes (continued)

30 JUNE 2005

11. RESERVES AND RETAINED EARNINGS

(a) Investment revaluation reserve

Nature and purpose of reserve

The investment revaluation reserve is used to record increments and decrements in the value of non-current investments while it has a positive balance in total.

		CONSOLIDATED		PARENT ENTITY	
		June 05 $'000	June 04 $'000	June 05 $'000	June 04 $'000
Non-current investments	(i)	-	-	-	10
Balance at end of year		-	-	-	10

(i) Revaluation of non-current investments at 30 June 2005 resulted in a net decrement and accordingly amounts exceeding the balance in the Investment Revaluation Reserve have been recognised directly in the Statement of Financial Performance.

	CONSOLIDATED		PARENT ENTITY	
	June 05 $'000	Period from 19 March to 30 June 04 $'000	June 05 $'000	Period from 19 March to 30 June 04 $'000
(b) Accumulated losses				
Balance at the beginning of year	(104)	-	(114)	-
Net loss attributable to members of Pengana Managers Limited	(1,115)	(104)	(1,105)	(114)
Balance at end of year	(1,219)	(104)	(1,219)	(114)

Notes (continued)

30 JUNE 2005

	CONSOLIDATED		PARENT ENTITY	
	June 05 $'000	Period from 19 March to 30 June 04 $'000	June 05 $'000	Period from 19 March to 30 June 04 $'000
12. STATEMENT OF CASH FLOWS				
(a) Reconciliation of the net profit after tax to the net cash flows from operations				
Net loss	(1,169)	(104)	(1,105)	(114)
(Increase)/decrease in GST receivable	55	-	57	-
(Increase)/decrease in interest and trust distributions receivable	(78)	-	(652)	-
(Increase)/decrease in other receivables	(2)	-	(1)	-
Increase/(decrease) in management fees payable	132	-	-	-
Increase/(decrease) in dividends payable on short sales	48	-	-	-
Increase/(decrease) in audit fees payable	55	-	34	-
Increase/(decrease) in other creditors	65	179	(69)	179
(Increase)/decrease in prepayments	(40)	-	(34)	-
(Increase)/decrease in other assets	(114)	(10)	-	-
Net changes in market value of investments	352	-	974	-
Amortisation of organisational expenses	181	-	-	-
Provisions	40	-	-	-
Net foreign currency (gains)/losses	(1,065)	-	-	-
Net cash flow from operating activities	(1,540)	65	(796)	65
(b) Reconciliation of cash				
Cash balance comprises:				
Cash assets	28,507	30,167	16,978	9,167
Closing cash balance	28,507	30,167	16,978	9,167

(c) Acquisition of controlled entities

In November 2004 Pengana Managers Limited acquired a 100% ownership interest in Stanley Global Resources Market Neutral Unit Trust.

The net assets of Stanley Global Resources Market Neutral Unit Trust at 1 November 2004 were:

	$'000
Cash	7,000
Net assets	7,000
Net cash effect	
Cash consideration paid	7,000
Cash paid for purchase of controlled entity as reflected in the statement of cash flows	7,000

Notes (continued)

30 JUNE 2005

12. STATEMENT OF CASH FLOWS (CONTINUED)

(d) Disposal of controlled entities

During the year Pengana Managers Limited fully disposed of its interests in Percon Managed Futures Unit Trust and in Camelotfund Global Macro Unit Trust. Aggregate details of the disposals are as follows:

	Percon Managed Futures Unit Trust $'000	Camelotfund Global Macro Unit Trust $'000	Total $'000
Proceeds on disposal			
- cash	6,801	6,626	13,427
The carrying amount of assets and liabilities disposed of by major class are:			
- Cash and investments	6,801	8,368	15,169
- Outside equity interests	-	(1,742)	(1,742)
Net assets of entity sold	6,801	6,626	13,427
Profit on disposal	-	-	-
Net cash effect			
Cash proceeds	6,801	6,626	13,427
Cash balance disposed	-	-	-
	6,801	6,626	13,427

	CONSOLIDATED June 05 $'000	CONSOLIDATED June 04 $'000
13. EARNINGS PER SHARE		
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:		
Net loss after tax	(1,115)	(104)

Notes (continued)

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13. EARNINGS PER SHARE (CONTINUED)

	Number of shares June 05 '000	Number of shares June 04 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	30,395	2,046
Basic earnings per share	($0.0367)	($0.0507)

At 30 June 2005 Pengana Managers Limited had only one category of ordinary shares on issue. Accordingly there are no potential ordinary shares that may have a dilutive effect on earnings of the Company.

14. SUBSEQUENT EVENTS

The Company invested $15 million in Pengana Absolute Return Real Estate Unit Trust on 1 July 2005.

The Company is in the process of establishing a separate account with a broker into which $1.4 million will be deposited. The Company will enter into separate investment management agreements ("managed accounts") with Camelotfund Australia Pty Limited and Percon Capital Pty Limited.

Since 30 June 2005 there has not been any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the consolidated entity.

	CONSOLIDATED		PARENT ENTITY	
	June 05 $'000	Period from 19 March to 30 June 04 $'000	June 05 $'000	Period from 19 March to 30 June 04 $'000
15. AUDITORS' REMUNERATION				
Amounts received or due and receivable by Ernst & Young Australia for:				
- an audit of the financial report of the entity and any other entity in the consolidated entity	72	7	45	7
- non-audit services in relation to the entity and any other entity in the consolidated group	5	-	5	-
	77	7	50	7

Notes (continued)

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16. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Specified Directors

Roger Davis	Chairman
George Foster	Non-executive Director
Mark Beames	Non-executive Director
Dean Smorgon	Non-executive Director
Russel Pillemer	Director
Damien Hatfield	Director

(b) Remuneration Policy

The Board of Directors assesses the appropriateness of the nature and amount of emoluments of Directors on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum benefit from the retention of a high quality board. The Company does not employ any executive staff and accordingly there are no specified executives.

Details of the nature and amount of each element of the emolument of each Director for the financial year are provided below.

(c) Remuneration of Specified Directors

	Primary			Post employment		Equity	Other benefits	Total
Director	Salary & Fees	Cash Bonus	Non-monetary	Super-annuation	Retirement benefits	Options		
	$	$	$	$	$	$	$	$
Roger Davis								
2005	55,046	-	-	4,954	-	-	-	60,000
2004	13,761	-	-	1,239	-	-	-	15,000
George Foster								
2005	60,000	-	-	-	-	-	-	60,000
2004	15,000	-	-	-	-	-	-	15,000
Mark Beames								
2005	36,697	-	-	3,303	-	-	-	40,000
2004	9,174	-	-	826	-	-	-	10,000
Dean Smorgon								
2005	36,697	-	-	3,303	-	-	-	40,000
2004	9,174	-	-	826	-	-	-	10,000
Russel Pillemer*								
2005	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
Damien Hatfield*								
2005	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
Total								
2005	188,440	-	-	11,560	-	-	-	200,000
2004	47,109	-	-	2,891	-	-	-	50,000

* Directors are not paid by Pengana Managers Limited or any related parties.

Notes (continued)

30 JUNE 2005

16. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(d) Security holdings of Specified Directors and their related parties

	Securities held in Pengana Managers Limited (number)		
	Balance 1 July 04	Net Change	Balance 30 June 05
Specified Directors			
Roger Davis	40,000	-	40,000
George Foster	-	-	-
Mark Beames	50,000	10,000	60,000
Dean Smorgon	20,000	-	20,000
Russel Pillemer	1,000,000	33,200	1,033,200
Damien Hatfield	15,000	-	15,000
Total	1,125,000	43,200	1,168,200

All equity transactions with specified Directors have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

(e) Director transactions

Directors of the consolidated entity and Directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or director-related entity at arm's length in similar circumstances.

17. RELATED PARTY DISCLOSURES

(a) Wholly owned group transactions

Pengana Managers Limited held units in the following controlled entities:

	Number of units held	Interest held	Number of Units acquired	Number of units disposed	Distributions paid/payable by the Trust
Percon Managed Futures Unit Trust	-	100%	-	7,000,000	-
Camelotfund Global Macro Unit Trust	-	81%	-	7,000,000	-
Cape Leeuwin Capital Australian Long Short Equity Fund	6,883,090	94%	-	116,910	$641,000
Stanley Global Resources Market Neutral Unit Trust	3,161,896	100%	7,000,000	3,838,104	-

Notes (continued)

30 JUNE 2005

17. RELATED PARTY DISCLOSURES (CONTINUED)

Percon Managed Futures Unit Trust held shares in the following Cayman Islands domiciled mutual fund:

	Number of shares held	Interest held	Number of shares acquired	Number of shares disposed	Distributions paid/payable by the Fund
Percon Managed Futures Fund	-	100%	700,000	700,000	-

Camelotfund Global Macro Unit Trust held shares in the following Cayman Islands domiciled mutual fund:

	Number of shares held	Interest held	Number of shares acquired	Number of shares disposed	Distributions paid/payable by the Fund
Camelotfund Umbrella Fund (formerly know as Camelotfund Global Macro Fund)	-	100%	897,825	897,825	-

Cape Leeuwin Capital Australian Long Short Equity Unit Trust held shares in the following Cayman Islands domiciled mutual fund:

	Number of shares held	Interest held	Number of shares acquired	Number of shares disposed	Distributions paid/payable by the Fund
Cape Leeuwin Capital Australian Long Short Equity Fund	730,622	100%	742,293	11,671	-

Stanley Global Resources Market Neutral Unit Trust held shares in the following Cayman Islands domiciled mutual fund:

	Number of shares held	Interest held	Number of shares acquired	Number of shares disposed	Distributions paid/payable by the Fund
Stanley Global Resources Market Neutral Fund	311,925	100%	700,000	388,075	-

Notes (continued)

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17. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related Party Transactions

Shares in Pengana Managers Limited are stapled to units in Pengana Managers Trust. The shares and units are traded jointly as a stapled security on ASX. The Directors of Pengana Managers Limited have resolved that the Company will fund all expenses incurred by the Trust until the Trust begins to generate positive cash flows. The Company was charged a fee of $26,680 during the year by the Trust to meet expenses incurred for the year.

Pengana Managers Trust has an investment in Camelotfund Australia Pty Limited. Pengana Managers Limited loaned Camelotfund Australia Pty Limited $210,000 during the year. The loan is due to be repaid by 14 July 2006.

18. SEGMENT INFORMATION

Business segment

The consolidated entity operates in one business segment being investment management. The consolidated entity operates from one geographic location being Australia, where its investing activities are managed. Revenue is derived from dividends, distributions, interest, gains on sales of investments, and unrealised changes in the value of investments.

Segment accounting policies and segment location

The segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial period, there were no changes in segment accounting policies that had a material effect on the segment information. The consolidated entity operates wholly within Australia.

Notes (continued)

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19. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments 2005	**Floating interest rate $'000**	**Non-interest bearing $'000**	**Total Carrying Amount $'000**	**Weighted average effective interest rate**
Financial Assets				
Cash at bank	28,507	-	28,507	4.55%
Receivables	-	638	638	N/A
Prepayments	-	40	40	N/A
Loans	205	-	205	6.50%
Current investments	-	7,820	7,820	N/A
Other	-	114	114	N/A
	28,712	8,612	37,324	
Financial Liabilities				
Other creditors	-	479	479	N/A
Payables on investment settlements outstanding	-	3,304	3,304	N/A
Investments sold short	-	5,469	5,469	N/A
	-	9,252	9,252	

Financial Instruments 2004	**Floating interest rate $'000**	**Non-interest bearing $'000**	**Total Carrying Amount $'000**	**Weighted average effective interest rate**
Financial Assets				
Cash at bank	30,167	-	30,167	4.64%
Other debtors	-	74	74	N/A
	30,167	74	30,241	
Financial Liabilities				
Payables	-	1,519	1,519	N/A
	-	1,519	1,519	

N/A not applicable for non-interest bearing financial instruments.

Notes (continued)

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19. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Net fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

(c) Credit risk exposures

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

20. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Pengana Managers Limited has undertaken diagnostics and impact assessments for the purpose of transitioning its accounting policies and financial reporting from current Accounting Standards to Australian Equivalents of International Financial Reporting Standards (AIFRS). As a result of these procedures, the Company has determined that there will be no material financial effects of the parent entity's and consolidated entity's transition to AIFRS as at 1 July 2004 and for the first AIFRS comparative financial year ended 30 June 2005.

This represents the Company's best estimates of the changes as at the date of preparing the 30 June 2005 financial report. The Company has elected to apply the exemption contained in AASB 1 "First-time Adoption of the Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 and AASB 139 for the year ended 30 June 2005. Those Standards will be applied from 1 July 2005 and, accordingly, the adjustments required under those Standards will be recognised in the financial statements for the year ending 30 June 2006.

The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project teams; (b) potential amendments to AIFRS and interpretations thereof being issued by the standard setters and International Financial Reporting Interpretations Committee; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS in subsequent financial years and our best estimate of the qualitative impact of the changes.

(i) AASB 139 "Financial Instruments: Recognition & measurement" requires investments to be reclassified as "held for trading" and "available for sale". Unrealised profits/losses on investments "available for sale" are required to be recognised directly in a separate component of equity. Previously in the parent entity, unrealised losses were included in the Statement of Financial Position in an Investment Revaluation Reserve while this reserve had a positive balance in total otherwise they were included in net profit. AASB 139 will be applied from 1 July 2005 and, accordingly, the adjustments required will be recognised in the financial statements for the year ending 30 June 2006.

(ii) AASB 121 "The Effects of Changes in Foreign Exchange Rates" requires that resulting exchange differences on the translation of financial statements to the presentation currency be recognised as a separate component of equity. Previously these exchange differences were recognised in the statement of financial performance.

Notes (continued)

30 JUNE 2005

20. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

(iii) AASB 112 "Income Taxes" requires that the Company use a balance sheet liability method, rather the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This would result in the recognition of a deferred tax liability in relation to the revalued assets. Under AGAAP, the tax effects of asset revaluations are not recognised. There will be no material impact on adoption of this standard.

Directors' Declaration

In accordance with a resolution of the Directors of Pengana Managers Limited, we state that:

1) In the opinion of the Directors:

   a) the financial statements and notes of the Company and consolidated entity are in accordance with the *Corporations Act 2001 (Cth)*, including:

      i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

      ii) complying with Accounting Standards and Corporations Regulations 2001; and

      iii) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001(Cth)* for the financial period ended 30 June 2005.

On behalf of the Board

Roger Davis	Russel Pillemer
Chairman	Director

Sydney, 23 August 2005

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Independent audit report to members of Pengana Managers Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Pengana Managers Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 of the financial report in order to express an opinion on them to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order 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 present fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity'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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is attached to the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion
In our opinion, the financial report of Pengana Managers Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Pengana Managers Limited and the consolidated entity at 30 June 2005 and of their performance for the 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.

Ernst & Young

Ernst & Young

Mark O'Sullivan
Partner
Sydney
23 August 2005