MAGELLAN
FINANCIAL GROUP

Magellan Financial Group Limited
ABN 59 108 437 592

Magellan Financial Group Trust
ARSN 111 911 892

Level 1, 1 Castlereagh Street
Sydney NSW 2000 AUSTRALIA

PO Box R226, Royal Exchange NSW 1225

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Web www.magellangroup.com.au

27 February, 2007

ASX Limited
Company Announcements Office
20 Bridge Street
Sydney NSW 2000

Dear Sirs,

HALF YEAR FINANCIAL REPORT – FOR THE PERIOD FROM 1 JULY, 2006 TO 31 DECEMBER, 2006

Magellan Financial Group Limited hereby lodges:

1. Half Year Investor Report.
2. Appendix 4D Statement for the period ended 31 December 2006.
3. Financial Report for the period ended 31 December 2006.

Yours faithfully,

David Simpson
General Counsel & Company Secretary

MAGELLAN FINANCIAL GROUP

HALF YEAR INVESTOR REPORT

31 DECEMBER 2006

DEAR INVESTOR

I have great pleasure writing to you as an investor in Magellan Financial Group.

We have been busy since approval of the recapitalisation of the company to form Magellan Financial Group on 17 November 2006. As well as receiving outstanding acceptance as an attractive new entrant in the financial services market, we have:

- completed the $378 million initial public offering of our first fund, Magellan Flagship Fund Limited;
- hired an outstanding team of professionals;
- announced a proposal to simplify the group structure by de-stapling and winding up the Magellan Financial Group Trust and introduce a Share Purchase Plan for our employees and non-executive Directors not associated with any of the cornerstone investors who participated in the recapitalisation; and
- moved into our offices at Level 1, 1 Castlereagh Street, Sydney;

FINANCIAL RESULTS AND FORECAST

For the six months to 31 December 2006, Magellan Financial Group reported an unaudited profit after tax of $109,000. The financial results for the six months to 31 December 2006 reflect a transition period for the Group and are not directly comparable to prior periods or future periods. The half year results include the effects of:

- profit on realisation of investments sold in connection with the recapitalisation;
- certain costs associated with implementation of the recapitalisation which were not charged to equity;
- start up and employee expenses from 20 November 2006; and
- accruals for employee bonuses.

A full copy of the Group's financial report for the six months ended 31 December 2006 is available on Magellan's website (www.magellangroup.com.au).

For the full year to 30 June 2007, the Directors anticipate that the Group will record a modest loss after tax in the range $2.8 million to $3.0 million as we build our business. The full year financial forecast reflects:

- expenses incurred to implement the proposal to de-staple and wind up the Magellan Financial Group Trust and introduce the Share Purchase Plan;
- expenses incurred to launch new funds;
- costs associated with employees, including salaries, bonuses and recruiting costs. The majority of these employees have been hired to run investment funds which have not yet been launched by the Group and, therefore, there will be little or no offsetting revenue in this financial year. As at 31 December 2006, the Group had 7 employees and the results for the six months ended 31 December 2006 include the expenses in relation to these employees from 20 November 2006, the date on which the Group acquired Magellan Asset Management Pty Ltd. As at 23 February 2007, the Group had 18 employees and anticipates to have approximately 25 employees by 30 June 2007;
- a future income tax benefit of $1.4 million to $1.5 million relating to the loss for the year ending 30 June 2007;
- investment management fees from Magellan Flagship Fund Limited for a 7 month period. In 2008, the Group will earn investment management fees from Magellan Flagship Fund Limited for the full financial year; and

- investment income earned on the new capital raised by the Group. The cornerstone placement undertaken in November 2006 raised $37.4 million and the entitlements offer and priority placements to be undertaken in March/April 2007 are anticipated to raise approximately $42 million. The full year financial forecast includes estimated interest income on this new capital. In 2008, the Group will earn interest or investment income on the new capital raised for a full financial year.

The Group paid a dividend of 7 cents per stapled security in December 2006 in conjunction with the recapitalisation. The Directors do not intend to declare an interim dividend in respect of the half year ended 31 December 2006 or a final dividend for the full year ending 30 June 2007.

OVERVIEW OF OUR STRATEGY

Magellan Financial Group's primary operating business, Magellan Asset Management Pty Ltd, will establish over time a number of globally-focused investment funds for retail investors and a limited number of specialist globally-focused investment funds for institutional investors.

My business partner and our Chief Investment Officer, Chris Mackay, and I believe that a compelling case exists for Australian and New Zealand investors to diversify part of their wealth into global investment opportunities. The case is particularly compelling at the present time given the relatively high Australian dollar and the strong performance of the Australian stock market in recent years.

It is important for Australian investors to recognise that Australia only represents approximately 2.5% of the global MSCI index. The Australian stock market is relatively concentrated with financial companies and resource and materials companies representing 42% and 20% of the market capitalisation of the Australian stock market respectively. On a global basis, these sectors represent approximately 26% and 6% of global stock market capitalisation. Chris and I believe that, by investing part of their investible assets offshore, investors will diversify risk and vastly increase the number of available outstanding investment opportunities.

The Group's investment philosophy is rational and, we believe, compelling. Each of its funds will seek to invest in a portfolio of outstanding global companies assessed to have highly attractive business characteristics at a discount to our assessment of their intrinsic value. Chris and I believe that investing in a portfolio of outstanding businesses purchased at attractive prices will minimise the risk of permanent capital loss for our investors. We will not seek to engage in overly speculative activity.

The fee structures of our funds will be aligned with the interests of our investors. In addition to base fees, as a general guideline, the Group's performance fees will be subject to both absolute and relative performance hurdles, plus a high water mark requirement. There also will be a restriction on the payment of any performance fees such that a performance fee will be only paid to the extent that the net return after all fees at least matches the return from a relevant index.

Magellan Financial Group is establishing itself as an independent specialist funds management group. To avoid conflicts of interest, the only form of remuneration it will receive from the funds it manages will be investment management fees. The Group does not intend to charge any arranging, transaction, mergers and acquisitions, advisory or similar fees to any of its funds.

Our first fund, Magellan Flagship Fund Limited, listed on ASX in December 2006. This fund's investment mandate is to invest in 30 to 50 companies, which we believe to have outstanding long term business economics, at a discount to our assessment of intrinsic value. A copy of the Half Year Investor Report for the Magellan Flagship Fund is available on our website (www.magellangroup.com.au).

Over the next six months, Magellan is planning to launch a number of funds:

- An unlisted global equities fund for retail investors. It is intended that this fund will invest in three specialist global sector funds (financial services, consumer and infrastructure) and a high conviction global equities fund. We have hired an outstanding team of investment professionals to run each of the global sector funds. Heath Behncke will be the portfolio manager of the financial services fund and Jacqui Fernley will be the portfolio manager of the consumer fund. I will be the investment manager for the high conviction fund, while Chris Mackay will continue to act as the investment manager for Magellan Flagship Fund Limited.
- Unlisted infrastructure funds for institutional investors. These funds will be run by Gerald Stack, Dennis Eager and Alex Hone, who are an outstanding team of investment professionals and experts in the field of infrastructure.

It is important for you to appreciate that success in the investment management business will not come overnight. It will take time (likely years) to build the Magellan business and brand, and to create outstanding investment performance for our investors. Chris and I are very realistic about the timeframes and believe it is critical that we do not cut corners and we hire outstanding people in all areas of the Group's business. This requires a substantial upfront investment in people and infrastructure. The revenue line will grow over time as we perform for our investors and attract funds under management. Logic says that it is likely to take a number of years until we see the economic leverage in our funds management business model.

Magellan Financial Group's other primary business is to invest in fund managers. We believe that the fund management industry is a highly attractive industry with high growth rates and returns on capital. Notwithstanding these characteristics, the barriers to entry are extremely low and the barriers to sustained success are extremely high. The primary barrier to sustained success is the quality and integrity of the people. The Group intends to invest very selectively and only in a limited number of other fund managers, either via providing capital to seed a new business, acquiring an interest in an established funds management business or establishing a joint venture.

We will also regularly assess the risks/rewards of investment alternatives to earning interest income on capital not allocated to either of the primary businesses.

DE-STAPLING AND SHARE PURCHASE PLAN

We announced on 1 February 2007 a proposal to simplify the Group structure by de-stapling and winding up the Magellan Financial Group Trust and to introduce a Share Purchase Plan for employees and non-executive Directors not associated with the cornerstone investors. The extraordinary general meeting to approve this proposal is to be held on 22 March 2007. An explanatory memorandum setting out the full details of the proposal has been set to securityholders and is available on the Magellan Financial Group website (www.magellangroup.com.au).

The primary benefits of de-stapling and winding up the Trust are reduced ongoing costs and a more transparent and simple structure which will make the financial accounts easier for investors to understand and facilitate undertaking activities, such as issuing and buying back shares.

The Share Purchase Plan will assist employees and non-executive Directors not associated with the cornerstone shareholders to acquire shares in Magellan Financial Group, via an interest-free loan equal to 75% of the purchase price of the shares. We believe that the Share Purchase Plan is strongly in the interests of all shareholders as it aligns the interests of the participating employees and non-executive Directors with your interests via ownership of shares in the Group. It is a true share investment plan where participants are required to pay for the shares over time and are fully exposed to movements in the Group's share price. This is unlike many option or performance share plans where participants are either not exposed to decreases in the share price or are not required to pay for the shares.

ENTITLEMENTS OFFER AND PRIORITY OFFERS

Magellan Financial Group intends to undertake a 1 for 5 renounceable entitlements offer in March/April this year. The subscription price will be $0.975 per share. One option will also be issued for every two shares taken up under the entitlements offer. The options will have an exercise price of $1.20 and will expire on 30 June 2009. If an optionholder exercises their option a second option will be granted to the optionholder. The secondary option will have an exercise price of $1.30 and expire on 30 June 2011.

You will also be entitled to subscribe up to a maximum of 50,000 additional shares at $0.975 per share. This offer to Magellan Financial Group shareholders will be capped at 3,000,000 shares and applications will be subject to strict scale back provisions.

A prospectus will be sent to you when the entitlements and priority offers are made. Shareholders who wish to take up shares under the entitlements offer and/or the priority offer will need to complete the application form which will be included with the prospectus to be sent to you.

Thank you for your interest in Magellan.

Hamish M Douglass
Chairman, Magellan Financial Group

Sydney, February 2007

MAGELLAN FINANCIAL GROUP

Financial Overview

FINANCIAL PERFORMANCE: Six months to 31 December 2006	$'000
Revenue	1,432
Expenses	(1,503)
Profit/(loss) before income tax	**(71)**
Income tax credit	180
Profit/(loss) after income tax	**109**
Earnings per stapled security	**Cents per share**
- basic, earnings per stapled security holder	0.28

FINANCIAL POSITION: As at 31 December 2006	$'000
Cash and cash equivalents	39,812
Financial assets	24,788
Other assets	1,543
Total assets	**66,143**
Other payables	1,414
Total liabilities	**1,414**
Net assets	**64,729**
Total equity	**64,729**

This financial overview summarises in very broad detail Magellan's financial performance and position for the period ended, and as at, 31 December 2006. Investors are encouraged to read Magellan's full financial report and accompanying materials available either on the Magellan Financial Group website (www.magellangroup.com.au) or on the ASX website (ASX Code: MFG).

Corporate Directory:

Magellan Financial Group Limited ABN 59 108 437 592
Magellan Financial Group Trust ARSN 111 911 892

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MAGELLAN FINANCIAL GROUP

LIMITED

Magellan Financial Group Limited
Formerly Pengana HedgeFunds Limited
ABN 59 108 437 592

Magellan Financial Group Trust
Formerly Pengana HedgeFunds Trust
ARSN 111 911 892

APPENDIX 4D STATEMENT
FOR THE PERIOD FROM
1 JULY 2006 TO 31 DECEMBER 2006

APPENDIX 4D

1. Reporting Period

The reporting period is the half-year ended 31 December 2006 with a corresponding period being the half-year ended 31 December 2005. During the period the company changed its name from Pengana Hedgefunds Limited to Magellan Financial Group Limited (the Group).

2. Results for Announcement to the Market

3.1 Revenue from ordinary activities was $1,432,000 (2005: $130,000) an increase of 1,100% over the prior corresponding period.

3.2 Net profit from ordinary activities was $109,000 (2005: loss of $603,000)

3.3 Net profit attributable to stapled security holders was $109,000 (2005: loss of $592,000)

3.4 A dividend for the period has been declared of 7.0 cents per stapled security, franked to 2.3 cents.

3.5 Record date for the dividend was 20 November 2006.

3.6 Reported results for the period ended 31 December 2006 reflect a transition period for the Group and are not directly comparable to prior periods. The half year results include the effects of:

- profit on realisation of investments sold in connection with the recapitalisation
- certain costs associated with implementation of the recapitalisation which were not charged to equity
- start up and employee expenses from 20 November 2006, and
- accruals for employee bonuses.

Key performance indicators for the Group have been identified as follows:

(i) Funds under Management

The Group acts as Manager to the Magellan Flagship Fund Limited, which is a listed investment company with a market capitalisation at 31 December 2006 of $374.8million

3. Net Tangible Assets

Net asset backing per share was $0.96 as at 31 December 2006 (31 December 2005:$0.96)

4. Entities over which control has been gained or lost during the period

Magellan Financial Group Limited acquired Magellan Asset Management Pty Limited on 21 November 2006, and disposed of Pengana Absolute Return Real Estate Fund on 30 September 2006.

5. Details of dividends/distributions

The directors declared a dividend/distribution of 7 cents per stapled security comprising a fully franked Company dividend of 5.39 cents per share and a Trust distribution of 1.61 cents per unit.

The record date of entitlement was 20 November 2006, payment date was 5 December 2006 and the securities traded ex dividend/distribution on 14 November 2006.

6. Dividend or distribution reinvestment

Not applicable

7. Details of associates and joint ventures

Not applicable

8. Details of foreign entities

Not applicable

9. Audit dispute or audit qualification

Not applicable

MAGELLAN
FINANCIAL GROUP

Magellan Financial Group Limited

(formerly Pengana HedgeFunds Limited)

ABN 59 108 437 592

Condensed Financial Report for the half-year ended 31 December 2006

Contents to Financial Report

Corporate Information

ABN 59 108 437 592

This half-year financial report covers the entity Magellan Financial Group Limited (formerly Pengana HedgeFunds Limited) and its controlled entities (the Group). The Group's functional and presentation currency is AUD ($).

A review and results of operations is included in the directors' report on page 2. The directors' report is unaudited and does not form part of the financial report.

Directors
H. Douglass (Chairman)
B. Cairns
P. Lewis
C. Mackay
N. Milgrom

Company secretary
D. Simpson

Registered office
Level 1, 1 Castlereagh Street
Sydney NSW 2000

Principal place of business
Level 1, 1 Castlereagh Street
Sydney NSW 2000
Tel: +61 2 8114 1888

Share Register
Registries Limited
28 Margaret Street
Sydney NSW 2000
Tel: +61 2 9290 9620

Auditors
Ernst & Young
680 George Street
Tel: +61 2 9248 5555

Directors' Report

Your directors submit their report for the half-year ended 31 December 2006

DIRECTORS

The following persons were directors of Magellan Financial Group Limited (formerly Pengana HedgeFunds Limited) during the financial year and up to the date of the this report.

H. Douglass (appointed 21 November 2006) (Chairman)
B. Cairns (appointed 22 January 2007)
P. Lewis (appointed 20 December 2006)
C. Mackay (appointed 21 November 2006)
N. Milgrom (appointed 20 December 2006)

R. Davis (resigned 20 December 2006)
M. Beames (resigned 21 November 2006)
D. Smorgon (resigned 21 November 2006)
R.Pillemer (resigned 21 November 2006)
D.Hatfield (resigned 21 November 2006)

REVIEW AND RESULTS OF OPERATIONS

For the six months to 31 December 2006, Magellan Financial Group (the Group) reported an unaudited profit after tax of $109,000 (2005: loss of $603,000). The financial results for the six months to 31 December 2006 reflect a transition period for the Group and are not directly comparable to prior periods or future periods. The half year results include the effects of:

- profit on realisation of investments sold in connection with the recapitalisation;
- certain costs associated with implementation of the recapitalisation which were not charged to equity;
- start up and employee expenses from November 2006; and
- accruals for employee bonuses.

The Group paid a dividend of 7 cents per stapled security in December 2006 in conjunction with the recapitalisation. The Directors do not intend to declare an interim dividend in respect of the half year ended 31 December 2006 or a final dividend for the full year ending 30 June 2007.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the independence declaration from our auditors, Ernst & Young, under section 307C of the Corporation Act 2001, which is attached to this report.

Signed in accordance with a resolution of the directors.

Hamish Douglass
Chairman
Sydney
26 February 2007

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

In relation to our review of the financial report of Magellan Financial Group Limited for the half year ended 31 December 2006, 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

Andrew Price
Partner
Sydney
27 February 2007

Condensed Income Statement
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

		CONSOLIDATED	
	Note	*31 December 2006 $'000*	*31 December 2005 $'000*
Revenue	4	1,432	130
Expenses	5	(1,503)	(733)
Profit/(loss) before income tax		(71)	(603)
Income tax (expense)/credit	6	180	-
Profit/(loss) after income tax		109	(603)
Profit/(Loss) attributable to minority interest			
- Magellan Financial Group Trust		530	38
- External minority interest		-	11
Profit/(Loss) attributable to members of the parent		(421)	(554)
Profit/(Loss) attributable to stapled security holders represented by:			
- Magellan Financial Group Limited		(421)	(554)
- Magellan Financial Group Trust		530	(38)
		109	(592)
Earnings per stapled security (cents per stapled security)			
Basic earnings per stapled security		0.28	(1.94)
Diluted earnings per stapled security		0.24	(1.94)
Dividends per stapled security (cents per stapled security)		7.00	-
Franked (cents per stapled security)		2.30	-

Condensed Balance Sheet
AS AT 31 DECEMBER 2006

	Note	As at 31 December 2006 $'000	As at 30 June 2006 $'000
ASSETS			
Current assets			
Cash and cash equivalents	14	39,812	1,638
Trade and other receivables		346	203
Prepayments		80	22
Total current assets		40,238	1,863
Non-current assets			
Financial assets	7	24,788	33,201
Property, plant & equipment		183	-
Deferred tax asset		934	776
Total non-current assets		25,905	33,977
TOTAL ASSETS		66,143	35,840
LIABILITIES			
Current liabilities			
Other payables		1,414	108
Total current liabilities		1,414	108
Non-current liabilities			
Deferred tax liabilities		-	675
TOTAL LIABILITIES		1,414	783
NET ASSETS		64,729	35,057
EQUITY			
Equity attributable to security holders of the parent			
Contributed equity	10	64,571	28,163
Asset revaluation reserve		(149)	(374)
Retained earnings		247	1,348
Parent's interests		64,669	29,137
Minority interests		60	5,920
TOTAL EQUITY		64,729	35,057

Condensed Statements of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

31 December 2006	Issued Capital $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Total $'000	Minority Interest $'000	Total $'000
Equity as at beginning of half-year	28,163	1,348	(374)	29,137	5,920	35,057
Net gains on available-for-sale financial assets	-	-	1,251	1,251	(700)	551
Disposal of controlling interest	-	898	(877)	21	(5,220)	(5,199)
Revaluation of other financial assets	-	-	(213)	(213)	-	(213)
Tax assets on revaluation of other financial assets	-	-	64	64	-	64
Total income and expenses for the period recognised directly in equity	-	898	225	1,123	(5,920)	(4,797)
Net profit / (loss) for the period	-	(421)	-	(421)	530	109
Total income and expenses for the period	-	477	225	702	(5,390)	(4,688)
Shares issued	37,440	-	-	37,440	-	37,440
Transaction costs on share issue	(1,032)	-	-	(1,032)	-	(1,032)
Equity as at 31 December 2006	64,571	1,825	(149)	66,247	530	66,777
Dividends and distributions paid	-	(1,578)	-	(1,578)	(470)	(2,048)
Equity as at 31 December 2006	64,571	247	(149)	64,669	60	64,729

31 December 2005	Issued Capital $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Total $'000	Minority Interest $'000	Total $'000
Equity as at beginning of half-year	28,827	(1,219)	-	27,608	464	28,072
Net gains on available-for-sale financial assets	-	-	2,104	2,104	-	2,104
Disposal of controlling interest	-	(11)	-	(11)	(453)	(464)
Transaction costs over accrued	2	-	-	2	-	2
Total income and expenses for the period recognised directly in equity	2	(11)	2,104	2,095	(453)	1,642
Net loss for the period	-	(554)	-	(554)	(49)	(603)
Total income and expenses for the period	2	(565)	2,104	1,541	(502)	1,039
Shares issued	-	-	-	-	-	-
Transaction costs on share issue	-	-	-	-	-	-
Equity as at 31 December 2005	28,829	(1,784)	2,104	29,149	(38)	29,111
Dividends and distributions paid	-	-	-	-	-	-
Equity as at 31 December 2005	28,829	(1,784)	2,104	29,149	(38)	29,111

Condensed Cash Flow Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	31 December 2006 $'000	*31 December 2005* $'000
Cash flows from operating activities:		
Interest received	420	160
Fee income	120	-
Dividends received	-	37
Proceeds from sale of held-for-trading financial assets	51,609	29,184
Purchases of held-for-trading financial assets	(22,801)	(29,669)
Administration and general expenses paid	(1,359)	(737)
Total cash (used by)/from operating activities	27,988	(1,025)
Cash flows from investing activities:		
Purchases of available-for-sale financial assets	(25,000)	(24,000)
Repayment/(borrowing) of loans & advances	137	(29)
Purchase of plant & equipment	(187)	-
Net cash used by investing activities	(25,050)	(24,029)
Cash flows from financing activities:		
Proceeds from issue of stapled and ordinary securities and units	38,351	-
Payment of stapled & ordinary security issue costs	(1,108)	-
Dividends and distributions paid	(2,008)	-
Cash attributable to minority interests on disposal of controlled entity	-	(588)
Net cash (used by) / from financing activities	35,235	(588)
Net cash increase / (decrease) in cash and cash equivalents	38,174	(25,642)
Cash and cash equivalents at the beginning of half year	1,638	28,507
Effect of exchange rates on cash holdings in foreign currencies	-	(3)
Cash and cash equivalents at end of the period	39,812	2,862

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The financial report of Magellan Financial Group Limited for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 26 February 2006. Magellan Financial Group Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of Pengana HedgeFunds Limited as at 30 June 2006. It is also recommended that the half-year financial report be considered together with any public announcements made by Magellan Financial Group Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 Interim Financial Reporting and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except available-for-sale investments that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements of Pengana HedgeFunds Limited for the year ended 30 June 2006.

Notes to the financial statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(continued)**

(c) Basis of consolidation

The combined financial report of Magellan Financial Group (the Group) comprises the consolidated financial reports of Magellan Financial Group Limited and Magellan Financial Group Trust. Magellan Financial Group Trust entered into an agreement to staple its equity securities to those of Magellan Financial Group Limited for the purpose of facilitating joint quotation of both entities on the Australian Stock Exchange Limited. The Constitutions of the Trust and the Company ensure that, for so long as the two entities remain jointly quoted, the number of units in the trust and shares in the company shall be equal in number and the unitholders and share holders shall be identical. The stapled equity securities may only be terminated at the end of the life of Magellan Financial Group Trust.

In addition to Magellan Financial Group Trust other controlled entities are listed below.

	Direct ownership 31 December 2006	Direct ownership 30 June 2006
Pengana Absolute Return Real Estate Fund (PARREF)	0.00%	76.61%
Magellan Asset Management Pty Limited (MAM)	100.00%	0.00%

All controlled entities have a June financial year end.

The purchase method of accounting is used to account for the acquisition of controlled entities by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority equity interests in the results and equity of controlled entities are shown separately in the consolidated financial report.

(d) Recognition of financial assets

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights and or obligations exist. Subsequent to initial recognition invesments are measured as set out below.

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments and other financial assets

Held for trading financial assets

Short term trading securities are classified as held for trading assets and are reflected at fair value. Gains or losses arising from changes in fair value of held for trading financial assets are recognised in the income statement. Held for trading financial assets held by the Group are short-term investments held by the underlying funds whose financial report has been consolidated with that of Magellan Financial Group Limited

Available for sale financial assets

Available for sale investments are those non-derivative financial assets that are designated as available for sale. After initial recognition, available for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

The directors have determined that the fair value of the available for sale investment in Magellan Flagship Fund Limited (***MFF***) is not the quoted market bid price at the close of business on 31 December 2006 but the net tangible assets backing of MFF as at 31 December 2006 of $0.99 per share, as reported to ASX on 11 January 2007. Upon the completion of the Entitlement Offer and Additional Offer in March/April 2007, MFF ordinary shares held by the Company will carry the same rights and entitlements as all other ordinary shares in MFF, and accordingly, the fair value of MFF ordinary shares held by the Company will be based on the quoted market bid price of MFF ordinary shares.

(f) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, in certain cases, the nearest dollar.

(g) Receivables

Receivables may include amounts receivable from trust distributions, interest or GST recoverable from the Australian Tax Office. These amounts are recognised at original stated amount less an allowance for any uncollectible amounts. Interest is accrued at the reporting date from the time last payment.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect its receivables. Bad debts are written off when identified.

Notes to the financial statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	31 December 2006 $'000	31 December 2005 $'000

3 **SEGMENT INFORMATION**

The nature of the operations and principal activities of the Magellan Financial Group Limited is funds management and it only operates from one geographic location being Australia.

4 **REVENUE**

	31 December 2006 $'000	31 December 2005 $'000
Interest income from banks and brokers	441	136
Dividend income from trading securities	-	29
Management fee income	261	-
Net (loss) on disposal of available for sale financial assets	(924)	-
Net gain/(loss) on disposal of held for trading financial assets	1,534	(55)
Marketing fee income	120	20
Total revenue	1,432	130

5 **EXPENSES**

	31 December 2006 $'000	31 December 2005 $'000
Dividends on short sales	-	72
Fund administration expenses	-	18
Management fees	123	172
Responsible entity fees	30	14
Auditors remuneration	33	46
Professional fees	241	115
Directors remuneration	110	75
Listing and registry fees	32	17
Service fees	232	-
Employee benefits	589	-
Other general and administrative expenses	113	204
Total operating expenses	1,503	733

6 **INCOME TAX**

The major components of income tax expense for the half-year ended 31 December 2006 and 31 December 2005

	31 December 2006 $'000	31 December 2005 $'000
Income statement		
Current income tax:		
Current income tax charge	-	-
Deferred income:		
Relating to origination and reversal of temporary differences	(180)	-
Income tax expense/(credit) reported in the income statement	(180)	-

7 **FINANCIAL ASSETS**

Available-for-sale at fair value	Holding % 31 December 2006	Holding % 30 June 2006	Holding $'000's 31 December 2006	Holding $'000's 30 June 2006
PAR Management Pty Limited (a)	-	20.00	-	709
Carpe Diem Capital Pty Limited (a)	-	18.00	-	-
Pencon Capital Pty Limited (a)	-	24.00	-	-
Cape Leeuwin Capital Pty Limited	24.00	24.00	-	-
Stanley Fund Managers Australia Pty Limited (a)	-	24.00	-	-
LS Asset Management Pty Limited (a)	-	24.00	-	-
Magellan Flagship Fund Limited (b)	6.51	N/A	24,788	-
Penguna Absolute Return Real Estate Fund (a)	-	76.61	-	22,349
Wallace Australia Opportunities Fund (a)	-	N/A	-	10,153
			24,788	33,201

(a) These entities were disposed of during the period for a total consideration of $29.715 million.

(b) Refer to Note 2 (c) - available for sale financial assets.

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

8 DIVIDENDS

During the year a dividend was declared and paid of 7 cents per share of which 1.61 cents related to Trust distributions. The company component is fully franked while the Trust component is unfranked.

9 COMMITMENTS AND CONTINGENCIES

	31 December 2006	31 December 2005
Premises and equipment - leases	$'000	$'000
Within one year	403	-
After one year but not more than five years	2,130	-
Longer than five years	114	-
	2,647	-

The Group has no other commitments or contingencies as at 31 December 2006. There has been no change in the contingent liabilities since the last annual reporting period.

10 CONTRIBUTED EQUITY

	31 December 2006 Number of Shares	30 June 2006 Number of Shares	31 December 2006 Issued Capital $'000	30 June 2006 Issued Capital $'000
Equity as at beginning of half-year	29,258,933	30,395,010	28,163	28,829
Share buy-back	-	(1,136)	-	(1,136)
Shares issued	38,400,000	-	37,440	-
Transaction costs on share issue	-	-	(1,032)	470
Equity as at 31 December	67,658,933	29,258,933	64,571	28,163

On 20 November 2006 Magellan Financial Group Limited issued 38.4 million stapled securities at a Net Tangible Assets of $0.975 per share raising $37.44 million.

OPTIONS

As part of the recapitalisation of Magellan Financial Group Limited, New Privateer Holdings Limited, NPH Funds Pty Limited and cornerstone investors were granted in total the following options.

	Number	Price $	Expiry date
Initial Options	19,200,000	1.20	30 June 2009
Secondary Options	19,200,000	1.30	30 June 2011

11 RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that were entered into with related parties for the period ended 31 December 2006:

Related party	*Payable to Related Party '000*	*Income earned from related parties $'000*	*Amounts paid to related parties $'000*	*Shareholding Number*	*Shareholding %*
31 December 2006					
* Aurora Funds Management Limited	-	-	42	-	-
30 June 2006					
* Aurora Funds Management Limited	-	-	41	-	-

*** Responsible Entity**

Aurora Funds Management Limited (ACN 092 626 885)
Level 11, Aurora Place
88 Philip Street
Sydney NSW 2000

Magellan Asset Management Pty Limited, a wholly owned subsidiary of Magellan Financial Group Limited, is the Manager of Magellan Flagship Fund Limited.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

12 FRANKING CREDITS

	31 December 2006 $'000	31 December 2005 $'000
Opening balance	-	-
Franking credits arising from tax paid November 2006.	675	-
Franking credits on dividend paid November 2006. 29,258,933 @ 2.3 cents per share.	(673)	-
Franking account balance as at 31 December 2006	2	-

13 EVENTS AFTER THE BALANCE SHEET DATE

The Company has subscribed for $5 million of capital in Magellan Asset Management Pty Limited on 29 January 2007.

On 12 January 2007 the Company announced that it would enter into on market trading to purchase up to a maximum of 10 million Magellan Flagship Fund (MFF) securities. As at the date of this report the shareholding in MFF is 26,436,648, including 1,436,648 purchased on market.

On 15 February 2007 MFG, the Company, lodged documents setting out terms & conditions of the de stapling and the winding up of the Magellan Financial Group Trust and Share Purchase Plan.
This Memorandum also refers to the intention of the Company to raise further capital in March/April 2007

14 CASH AND CASH EQUIVALENTS

For the purpose of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

	31 December 2006 $'000	30 June 2006 $'000
Cash at bank and in hand	39,647	1,638
Short term deposits	165	-
	39,812	1,638

Directors' Declaration

In accordance with a resolution of the directors of Magellan Financial Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are set out on pages 4 to 13 are in accordance with the *Corporations Act 2001*, including:

(i) give a true and fair view of the financial position as at 31 December 2006 and the peformance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001*; and

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

On behalf of the Board

Hamish Douglass
Chairman
Sydney
26 February 2007

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To the members of Magellan Financial Group Limited (formerly Pengana Hedgefunds Limited)

Report on the Condensed Half Year Financial Report

We have reviewed the accompanying half year financial report of Magellan Financial Group Limited and the entities it controlled during the half year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, statement of changes in equity and condensed cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half year Financial Report
The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Magellan Financial Group Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Magellan Financial Group Limited and the entities it controlled during the half year, is not in accordance with:

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

 (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and

 (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
27 February 2007

Magellan Financial Group Trust

formerly Pengana HedgeFunds Trust

ARSN 111 911 892

Condensed Interim Financial Report for the half-year ended 31 December 2006

Contents to Financial Report

Corporate Information

ARSN 111 911 892

This interim financial report covers the single entity Magellan Financial Group Trust (the Trust) for the period ended 31 December 2006. The Trust's functional and presentation currency is AUD ($).

A description of the Trust's operations and its principal activities is included in the review of operations and activities

in the directors' report on page 3. The directors' report is unaudited and does not form part of the financial report.

Responsible Entity
Aurora Funds Management Limited (ACN 092 626 885)
Level 11, Aurora Place
88 Philip Street
Sydney NSW 2000

Directors of Responsible Entity
Richard Matthews
Alastair Davidson
Hugh Latimer
Simon Lindsay
Oliver Morgan
Darren Stuart Olney-Fraser
Donald James Christie

Investment Manager
Magellan Asset Management Pty Ltd
Level 1, 1 Castlereagh Street
Sydney NSW 2000

Custodian
BNP Paribas Fund Services Australasia Pty Limited
Level 5, 60 Castlereagh Street
Sydney NSW 2000

Auditor
Ernst & Young
680 George Street
Sydney NSW 2000

Directors' Report

The directors of Aurora Funds Management Limited the Responsible Entity of Magellan Financial Group Trust (the Trust) submit their report for the half-year ended 31 December 2006.

DIRECTORS

The Directors of the Responsible Entity in office at any time during, or since the end of, the half-year are:

Richard Matthews
Alastair Davidson
Hugh Latimer
Simon Lindsay
Oliver Morgan
David O'Halloran resigned 29 January 2007
Richard Granger resigned 29 January 2007
Darren Stuart Olney-Fraser appointed 29 January 2007
Donald James Christie appointed 29 January 2007

Scheme Information

Magellan Financial Group Trust was constituted on 1 December 2004 and registered as an Australian managed investment scheme on 2 December 2004. The Trust changed its name from Pengana HedgeFunds Trust to Magellan Financial Group Trust on 24 November 2006.

Review and results of operations

The net operating result of Magellan Financial Group Trust is presented in the Income Statement. The Trust derived a profit/(loss) attributable to unitholders for the half year ended 31 December 2006 of $530,787 (2005: loss of $37,801).

As at the reporting date the Trust has realised all of its investments, except for Cape Leeuwin Capital Pty Limited which is expected to declare a final dividend and be disposed of prior to 30 June 2007.

Distributions

In December 2006 a distribution of 1.61 cents per security was made, totalling $471,069 (2005:Nil)

Significant Events after Balance Date

On 15 February, 2007 the directors of Magellan Financial Group Limited announced their intention to de-staple and wind up the Trust. The details are set out in the Explanatory Memorandum of 15 February, 2007.

AUDITOR'S INDEPENDENCE DECLARATION

The independence declaration from our auditors, Ernst & Young has been obtained and is attached to this report.

Signed in accordance with a resolution of the directors.

Alastair Davidson
Director
Sydney
Sydney, 27 February 2007

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Auditor's Independence Declaration to the Directors of Magellan Financial Group Trust

In relation to our review of the financial report of Magellan Financial Group Trust for the half year ended 31 December 2006, 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

Andrew Price
Partner
Sydney
27 February 2007

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Note	*31 December 2006* *$*	*31 December 2005* *$*
Continuing operations			
Revenue	3	705,410	-
Expenses	3	(174,623)	(37,801)
Profit / (Loss) attributable to unitholders		**530,787**	**(37,801)**
Distributions	8	(471,069)	-
Change in net assets attributable to unitholders		**59,718**	**(37,801)**

Condensed Balance Sheet
AS AT 31 DECEMBER 2006

	Note	31 December 2006 $	30 June 2006 $
ASSETS			
Cash and cash equivalents		585,507	32,825
Other assets		22,767	14,186
Investments / Other Financial Assets	4	24	700,114
TOTAL ASSETS		608,298	747,125
LIABILITIES			
Trade and other payables		548,580	47,145
TOTAL LIABILITIES (excluding net assets attributable to unitholders)		548,580	47,145
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		59,718	699,980

Condensed Statement of Changes in Net Assets Attributable to Unitholders
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Net deficit attributable to unitholders *$*
31 December 2006	
Balance at beginning of half-year	699,980
Transfer of unrealised gains on available for sale investments to profit	(699,980)
Profit attributable to unitholders	530,787
Distribution to unitholders	(471,069)
As at 31 December 2006	**59,718**
31 December 2005	
Balance at beginning of half-year	
Loss attributable to unitholders	(37,801)
As at 31 December 2005	**(37,801)**

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	31 December 2006 $	*31 December 2005* $
Cash flows from operating activities		
Interest received	5,508	-
Administrative and general expenses paid	(43,975)	-
Net cash flows from operating activities	(38,467)	-
Cash flows from investing activities		
Proceeds on disposal of available for sale investment	700,006	-
Net cash flows from investing activities	700,006	-
Cash flows from financing activities		
Repayment of loan	(108,857)	-
Net cash flows from/(used in) financing activities	(108,857)	-
Net increase / (decrease) in cash and cash equivalents	552,682	-
Cash and cash equivalents at the beginning of the period	32,825	-
Cash and cash equivalents at end of the period	585,507	-

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The interim financial report of Magellan Financial Group Trust (the Trust) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 27 February 2007. The Trust is a registered managed investment scheme under the Corporations Act 2001. The Trust continued to invest in accordance with the Trust's Constitution.

The Trust operates in one business segment, being investment management, and managed its investment activity from one geographic location, being Australia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Trust as the full financial report.

The half year financial report should be read in conjunction with the annual financial report of the Trust as at 30 June 2006.

It is also recommended that the interim financial report be considered together with the prospectus issued by Magellan Financial Group Limited on 10 November 2006 and any public announcements made by the Trust during the period ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation

The interim financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 Interim Financial Reporting, and other mandatory professional reporting requirements. The interim financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments that have been measured at fair value.

The Balance Sheet is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. Both the function and presentation currency of the interim financial report is in Australian dollars.

(b) Cash and cash equivalents

For the purpose of the condensed cash flow statement, cash and cash equivalents are as disclosed in the balance sheet.

(c) Taxation

Under current legislation, the Trust is not subject to income tax provided the unitholders are presently entitled to the income of Magellan Financial Group Trust, and the Trust fully distributes its taxable income.

Notes to the financial statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

		Note	*31 December 2006* $	*31 December 2005* $
3	**REVENUE, INCOME AND EXPENSES**			
	Revenue, Income and Expenses from Continuing Operations			
(i)	*Revenue*			
	Finance revenue		5,508	-
	Realised gain on disposal of available for sale investment		699,902	-
	Total revenue		705,410	-
	Breakdown of finance revenue:			
	Bank interest receivable (on historical cost basis)		5,508	-
(ii)	*Other expenses*			
	Legal & professional fees		120,907	5,000
	Responsible entity fees		29,167	13,891
	Compliance committee		8,250	7,150
	Filing fees		3,627	1,000
	Custody fees		3,850	3,851
	Audit & accountancy fees		(125)	4,400
	Other expenses		8,947	2,509
			174,622	37,801

4 INVESTMENTS

	31 December 2006 $	*30 June 2006* $
Camelot Australia Pty Limited	-	18
Cape Leeuwin Capital Pty Limited	24	24
Percon Capital Pty Limited	-	24
Stanley Fund Managers Australia Pty Limited	-	24
LS Asset Management Pty Limited	-	24
PAR Management Pty Limited	-	700,000
	24	700,114

Notes to the financial statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

5 UNITS ON ISSUE

	31 December 2006 Number of Units	30 June 2006 Number of Units
Equity as at beginning of half-year	29,258,933	30,395,010
Share buy-back	-	(1,136)
Shares issued	38,400,000	-
Transaction costs on share issue	-	-
Equity as at 31 December	67,658,933	29,258,933

On 20 November 2006 Magellan Financial Group Limited issued 38.4 million stapled securities at an Net Tangible Assets of $0.975 raising $37.44 million.

OPTIONS

As part of the recapitalisation of Magellan Financial Group Limited, New Privateer Holdings Limited, NPHF Pty Limited and cornerstone investors were granted the following options.

	Number	Price $	Expiry date
Initial Options	19,200,000	1.20	30-June-2009
Secondary Options	19,200,000	1.30	30-June-2011

Details of the Terms of the Options issue are contained in the Explanatory memorandum dated 13 October 2006.

6 CONTINGENCIES AND COMMITMENTS

The Trust has no contingent assets, contingent liabilities or commitments as at 31 December 2006.

7 EVENTS AFTER THE BALANCE SHEET DATE

The directors have proposed, on 15 February 2007, to de-staple the Trust unit from the Magellan Financial Group Limited share, and to proceed with the wind-up of the Trust.

8 DISTRIBUTIONS

During the year the directors of Magellan Financial Group Limited declared and paid a distribution/dividend of 7 cents per share of which 1.61 cents related to the Trust, totalling $471,068.82

9 RELATED PARTIES

There have been no significant changes to the related party transactions disclosed in the last financial report.

The responsible entity of the Trust is Aurora Funds Management Limited. The Responsible Entity held no units in the Scheme during the financial year.

At the date of this report the direct/indirect interests of the Directors of the Responsible Entity in Magellan Financial Group Limited stapled securities were as follows;

Richard Mathews nil stapled securities (30 June 2006: 5,000)
Oliver Morgan 5,000 stapled securities (30 June 2006: 25,000)

The Investment Manager of the Scheme is Magellan Asset Management Pty Limited. Previously, the Investment Manager was Pengana Capital Ltd

All transactions between the Scheme and related parties have been at market value on normal commercial terms and conditions

In accordance with the Scheme Constitution, the Responsible Entity is entitled to receive fees for the provision of services to the Scheme and to be reimbursed for certain expenditure incurred in the administration of the Scheme. Fees paid to the Responsible Entity for the period were $29,167. (year to 30 June 2006:$41,391)

During the period the Responsible Entity incurred certain expense on behalf of the Scheme for which it was reimbursed including expenses relating to the recapitalisation.

Directors' Declaration

In accordance with a resolution of the directors of Aurora Funds Management Limited, the responsible entity of Magellan Financial Group Trust, I state that:

In the opinion of the directors:

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

(i) give a true and fair view of the Trust's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and

(ii) comply with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001;* and

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

On behalf of the Board

Aurora Funds Management Limited

Alastair Davidson
Director

Sydney, 27 February 2007

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To the unitholders of Magellan Financial Group Trust (formerly Pengana Hedgefunds Trust)

Report on the Condensed Half Year Financial Report

We have reviewed the accompanying half year financial report of Magellan Financial Group Trust (the Scheme), which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, statement of changes in net assets attributable to unitholders and condensed cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half year Financial Report
The directors of Aurora Funds Management Limited (the Responsible Entity) are responsible for the preparation and fair presentation of half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Scheme's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Magellan Financial Group Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Ernst & Young

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Magellan Financial Group Trust is not in accordance with:

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

(i) giving a true and fair view of the Scheme's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
27 February 2007