

PENGANA EMERGING COMPANIES FUND

ARSN 111 894 510

**GENERAL PURPOSE FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2007**

**Pengana Capital Limited
Level 29, 20 Bond Street
Sydney, NSW 2000
ACN 103 500 868**

PENGANA EMERGING COMPANIES FUND

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PENGANA EMERGING COMPANIES FUND

DIRECTORS' REPORT

The Directors of Pengana Capital Limited (ABN 30 103 500 868), the Responsible Entity of the Pengana Emerging Companies Fund (the Scheme), present their report together with the financial report of the Scheme for the year ended 30 June 2007.

Directors

On 1 July 2007, Perpetual Trust Services Limited retired as Responsible Entity of the Scheme and Pengana Capital Limited was appointed in its place. The Directors of the Responsible Entity who, unless otherwise stated, have been in office from 1 July 2007 and until the date of this report are:

Russel Pillemer
Katrina Glendinning
Stuart Stuckey
Nick Griffiths

The directors of Perpetual Trust Services Limited, who were in office during the financial year to 30 June 2007 were as follows:

Patrick J. Nesbitt
Phillip A. Vernon
Ivan D. Holyman
Ian Pendleton

Scheme Information

Pengana Emerging Companies Fund is an Australian Registered Scheme. Pengana Capital Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 29, 20 Bond Street Sydney, NSW 2000.

Principal Activity

The principal activity for the Scheme during the year was the investment of unitholders' funds in accordance with the Scheme mandate. There has been no significant change in the nature of this activity during the year.

Review of Results and Operations

The results of the operations of the Scheme are disclosed in the Income Statement of the financial report. The Pengana Emerging Companies Fund derived a net profit attributable to unitholders of \$94,158,792 for the year ended 30 June 2007 (30 June 2006: \$14,433,779).

Distributions

Distributions paid and payable by the Scheme for the year ended 30 June 2007 were \$12,548,480 (30 June 2006: \$5,626,714).

Significant Changes in the State of Affairs

In the opinion of the directors, there have been no significant changes in the state of the Scheme's affairs during the financial year under review.

Significant Events After the Balance Date

Since 30 June 2007, there have been no matters or circumstances not otherwise dealt with in the Financial Report by the Responsible Entity that have significantly or may significantly affect the Scheme, its operations, results of operations or state of affairs in future years.

Likely Developments and Expected Results

Currently, there are no significant developments expected in respect of the Scheme. The performance of the Scheme in the future will be subject to movements in the underlying investment markets over time.

Environmental Regulation and Performance

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

Relevant Information

Following is a list of relevant information required under the Corporations Act 2001:

- Fees paid to the Responsible Entity - Refer to Note 8 to the Financial Statements
- Units held by the Responsible Entity in the Scheme - Refer to Note 8 to the Financial Statements
- Interests in the Scheme issued during the year - Refer to Note 6 to the Financial Statements
- Withdrawals from the Scheme during the year - Refer to Note 6 to the Financial Statements
- The value of Scheme assets and basis of valuation - Refer to Balance Sheet and Note 1 respectively
- The number of interests in the Scheme as at 30 June 2007 - Refer to Note 6 to the Financial Statements

These notes have been presented in accordance with ASIC Class Order 98/2395.

PENGANA EMERGING COMPANIES FUND

Indemnification and Insurance of Directors, Officers and Auditors

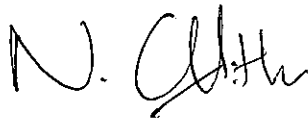
No insurance premiums are paid out of the assets of the Scheme in regard to indemnifying against a liability any person who is or has been an officer of the Responsible Entity or an auditor of the Scheme. So long as the Responsible Entity acts in accordance with the Scheme Constitution and Law, the Responsible Entity remains fully indemnified out of the assets of the Scheme against any losses incurred while acting on behalf of the Scheme.

The auditor of the Pengana Emerging Companies Fund is in no way indemnified out of the assets of the Pengana Emerging Companies Fund.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

Signed in accordance with a resolution of the Directors of Pengana Capital Limited:



Director

Dated this ²⁷th day of September 2007, Sydney

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Pengana Emerging Companies Fund for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pengana Emerging Companies Fund.



A.J. Wilson
Partner
PricewaterhouseCoopers

Sydney
28 September 2007

PENGANA EMERGING COMPANIES FUND

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 \$	2006 \$
INVESTMENT INCOME			
Dividends		5,147,224	1,565,000
Distributions		68,704	103,115
Interest		444,410	101,616
Net realised and unrealised gain/(loss) on financial instruments held at fair value through profit or loss		98,057,113	14,478,086
Other income		<u>55,274</u>	<u>13,494</u>
Total investment income		<u>103,772,725</u>	<u>16,261,311</u>
EXPENSES			
Management fees	8(c)	2,514,223	681,139
Performance fees	8(c)	7,098,612	1,145,699
Other expenses		<u>1,098</u>	<u>694</u>
Total operating expenses		<u>9,613,933</u>	<u>1,827,532</u>
OPERATING PROFIT		94,158,792	14,433,779
Financing costs attributable to unitholders			
Distributions to unitholders		12,548,480	5,626,714
Increase in net assets attributable to unitholders	6(b)	<u>81,610,312</u>	<u>8,807,065</u>
PROFIT/(LOSS) FOR THE YEAR		<u><u>-</u></u>	<u><u>-</u></u>

The above Income Statement should be read in conjunction with the accompanying notes

PENGANA EMERGING COMPANIES FUND

BALANCE SHEET
AS AT 30 JUNE 2007

	Notes	2007 \$	2006 \$
ASSETS			
Cash and cash equivalents	7(a)	19,567,049	2,574,970
Receivables	3	2,864,775	481,380
Financial assets held at fair value through profit or loss			
Listed equity securities	4	<u>345,199,594</u>	<u>78,732,419</u>
TOTAL ASSETS		<u>367,631,418</u>	<u>81,788,769</u>
LIABILITIES			
Payables	5	16,187,435	1,184,384
Distribution payable		<u>5,490,121</u>	<u>1,699,901</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>21,677,556</u>	<u>2,884,285</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	6(b)	<u>345,953,862</u>	<u>78,904,484</u>
<i>Represented by:</i>			
Fair Value of outstanding units based on redemption value		350,848,350	79,461,970
Adjustments arising from different unit pricing and AIFRS valuation principles		<u>(4,894,488)</u>	<u>(557,486)</u>

The above Balance Sheet should be read in conjunction with the accompanying notes

PENGANA EMERGING COMPANIES FUND

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	\$	\$
Total equity at the beginning of the financial year	-	-
Net income/(expense) recognised directly in equity	-	-
Operating profit for the year	-	-
Total recognised income and expense for the year	-	-
Contributions of equity, net of transaction costs	-	-
Distributions to equity holders	-	-
Total equity at the end of the financial year	-	-

Under AIFRS, Net Assets Attributable to Unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or end of the period.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

PENGANA EMERGING COMPANIES FUND

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sales of financial instruments held at fair value through profit or loss		85,600,361	60,271,863
Payment for purchases of financial instruments held at fair value through profit or loss		(244,843,480)	(97,883,571)
Dividends received		4,840,313	1,601,348
Distributions received		118,809	92,885
Interest received		417,277	91,584
GST received/(paid)		(634,372)	(92,150)
Other income received		55,274	13,494
Management fees paid		(2,210,045)	(619,324)
Performance fees paid		(3,053,349)	(99,298)
Other expenses paid		<u>(1,098)</u>	<u>(694)</u>
Net cash outflow from operating activities	7(b)	(159,710,310)	(36,623,863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from applications by unitholders		220,571,868	40,162,434
Cash paid for redemptions by unitholders		(41,344,611)	(2,090,257)
Distributions paid		<u>(2,524,868)</u>	<u>(190,473)</u>
Net cash inflow from financing activities		176,702,389	37,881,704
Net increase/(decrease) in cash and cash equivalents held		16,992,079	1,257,841
Cash and cash equivalents at beginning of year		<u>2,574,970</u>	<u>1,317,129</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	7(a)	<u><u>19,567,049</u></u>	<u><u>2,574,970</u></u>
Non-cash financing and investing activities	7(c)	6,345,444	4,030,222

The above Cash Flow Statement should be read in conjunction with the accompanying notes

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Scheme Information

The Pengana Emerging Companies Fund is an Australian Registered Scheme. Pengana Capital Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 29, 20 Bond Street Sydney, NSW 2000.

The principal activity for the Scheme during the year was the investment of unitholders' funds in accordance with the Scheme mandate.

There has been no significant change in the nature of this activity during the year.

(b) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the Scheme Constitution and the requirements of the Corporations Act 2001, which includes Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations. Australian Accounting Standards include the Australian equivalents to International Financial Reporting Standards (AIFRS).

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

The Balance Sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non current items.

All of the Scheme's assets and liabilities are expected to be realised within one year. Certain assets and liabilities may not be settled within 12 months, in particular trading securities and unitholder liabilities. Given the nature of the Scheme, a reasonable estimate cannot be made of the amount of the balances, if any, that are unlikely to be settled within 12 months.

The accounting policies of the Scheme are consistent with those of the prior period financial report.

(c) Statement of Compliance

This financial report has been prepared in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial report of the Scheme, comprising the financial statements and notes thereto, comply with International Financial Reporting Standards (IFRS).

(d) Financial Instruments

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

(i) Financial instruments designated at fair value through profit or loss upon initial recognition

Financial instruments designated at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis, in accordance with the Scheme's documented investment strategy. Financial instruments designated at fair value through profit or loss are initially recognised at cost excluding transaction costs and subsequently measured at fair value through profit or loss.

Listed equity securities

The fair value of a listed equity security is determined by reference to the "bid" price of the security, as quoted on its primary exchange on the day of valuation.

Purchases and sales of financial instruments held for trading that require delivery of assets within the time frame established by regulation or market place convention are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset.

Purchases and sales of investments are recognised on the date that the Scheme is contractually bound to purchase or sell the investment.

(e) Use of Estimates

The Scheme does not make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period.

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment Income

Income is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Dividend Income

Dividends are recognised as income on the date the share is quoted ex-dividend.

Trust Distributions Income

Trust distributions are recognised as income on an entitlements basis.

Interest Income

Interest income is recognised for all debt instruments using the effective interest rate method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying value of the amount of the financial instrument.

Net realised and unrealised gain/(loss) on financial instruments held at fair value through profit or loss

Realised gains and losses arising from investment transactions are included in the Income Statement as part of changes in the fair value of investments and are calculated as the difference between the sale consideration and the carrying value as at the beginning of the year. For investments purchased during the year, realised gains and losses are calculated as the difference between the sale consideration and the investment's historic cost.

Unrealised gains and losses resulting from movements in the fair value of investment assets are also included in the Income Statement in the year in which they arise.

All expenses are recognised in the Income Statement on an accruals basis.

(g) Derecognition of Financial Instruments

The derecognition of a financial instrument takes place when the Scheme no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(h) Cash and Cash Equivalents

For Cash Flow Statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, high liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in liabilities on the Balance Sheet. Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

(i) Receivables

Receivables include amounts where settlement has not yet occurred, and include outstanding settlements on the sale of investments. Amounts are generally received within 30 days of being recorded as receivables.

(j) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme, and include outstanding settlements on the purchase of investments. Amounts are generally paid within 30 days of being recorded as payables.

(k) Net Assets Attributable to Unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back into the Scheme at any time for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unitholders exercised their right to put the units back into the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a component of net assets attributable to unitholders.

(l) Taxation

Under current legislation, the Scheme is not subject to income tax provided the unitholders are presently entitled to the taxable income of the Scheme.

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Distributable Income

In accordance with the Scheme Constitution, the Scheme fully distributes its distributable income to unitholders each tax year. Distributions are payable at the end of each half year. Such distributions are determined by reference to the taxable income of the Scheme. Distributions are recognised in the Income Statement as finance costs attributable to unitholders.

Distributable income includes capital gains arising from the disposal of assets.

Distributable income does not include unrealised gains and losses on the net value of investments, accrued income not yet assessable and expenses provided for or accrued but not yet deductible, tax free or deferred income and realised capital losses which are retained to offset future realised capital gains.

(n) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for capital and is regulated. The Australian dollar is also the Scheme's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies on the Balance Sheet are recognised in the Income Statement.

(o) Unit Exit Prices

Unit exit prices are determined in accordance with the Scheme Constitution and are calculated on a historic pricing basis as the net assets attributable to unitholders of the Scheme less estimated transaction costs divided by the number of units on issue.

(p) Terms and Conditions of Units on Issue

Each unit confers upon the unitholder an equal interest in the Scheme (subject to income entitlements), and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme.

Unitholders have various rights under the Scheme Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed
- receive income distributions
- attend and vote at meetings of unitholders
- participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to each unitholder class are identical in all respects.

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

(q) Goods and Services Tax

Responsible Entity fees and other expenses incurred by the Scheme are recognised net of the amount of goods and services tax (GST) recoverable from the taxation authority as a reduced input tax credit (RITC). Payables and accruals are stated with the amount of GST included. The net amount of GST recoverable/payable from/to the Australian Taxation Office (ATO) is included as a receivable or payable in the Balance Sheet. Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO are classified as operating cash flows.

(r) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current financial year.

PENGANA EMERGING COMPANIES FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) New Accounting Standards and Interpretations

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

- AASB 7 "Financial Instruments: Disclosures", AASB 101 "Presentation of Financial Statements" and AASB 2005-10 "Amendments to Australian Accounting Standards" [AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB1023 & AASB 1038]. AASB 7, AASB 101 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007.
- UIG 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006).
- AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]. AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009.
- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038] (effective for annual periods beginning on or after 1 July 2007).

The Scheme has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Scheme's financial instruments.

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	\$	\$
NOTE 2: AUDITOR'S REMUNERATION		
Amounts paid or payable to PricewaterhouseCoopers, the auditor of the Scheme, for:		
Audit of the Financial Statements of the Scheme	11,210	9,750
Other services in relation to the Scheme	<u>18,360</u>	<u>11,537</u>
	<u>29,570</u>	<u>21,287</u>
Fees are stated net of GST. Fees in both years were paid by the Manager or a related entity of the Manager of the Scheme.		
NOTE 3: RECEIVABLES		
Dividends receivable	185,180	-
Distributions receivable	-	50,105
Interest receivable	43,745	16,612
Outstanding settlements receivable	1,889,812	302,997
GST receivable	<u>746,038</u>	<u>111,666</u>
	<u>2,864,775</u>	<u>481,380</u>
NOTE 4: FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed equity securities		
Equities	<u>345,199,594</u>	<u>78,732,419</u>
Total Financial Assets Held at Fair Value Through Profit or Loss	<u>345,199,594</u>	<u>78,732,419</u>
NOTE 5: PAYABLES		
Management fees payable	399,005	94,827
Performance fees payable	5,091,664	1,046,401
Outstanding settlements payable	10,632,027	-
Redemptions payable	55,060	43,156
Other expenses payable	<u>9,679</u>	<u>-</u>
	<u>16,187,435</u>	<u>1,184,384</u>

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	2007 Units	2006 Units
NOTE 6: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
The movement in number of units and net assets attributable to unitholders during the year was as follows:		
(a) Units on Issue		
Opening Balance	56,144,966	25,265,688
Applications	111,644,955	29,520,989
Reinvested Distributions	2,786,092	2,926,996
Redemptions	<u>(19,302,633)</u>	<u>(1,568,707)</u>
Closing Balance	<u>151,273,380</u>	<u>56,144,966</u>

	2007 \$	2006 \$
(b) Net Assets Attributable To Unitholders		
Opening Balance	78,904,484	28,038,176
Applications	220,571,868	40,162,434
Reinvested Distributions	6,223,713	4,030,222
Redemptions	<u>(41,356,515)</u>	<u>(2,133,413)</u>
	264,343,550	70,097,419
Net profit/(loss) attributable to unitholders after distributions	<u>81,610,312</u>	<u>8,807,065</u>
Closing Balance	<u>345,953,862</u>	<u>78,904,484</u>

NOTE 7: CASH FLOW INFORMATION

(a) Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

Cash on deposit	<u>19,567,049</u>	<u>2,574,970</u>
	<u>19,567,049</u>	<u>2,574,970</u>

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	\$	\$
NOTE 7: CASH FLOW INFORMATION (Continued)		
(b) Reconciliation of Net Profit/(Loss) Attributable to Unitholders to Net Cash Inflow/(Outflow) from Operating Activities		
Net profit/(loss) attributable to unitholders	94,158,792	14,433,779
Proceeds from sales of financial instruments held at fair value through profit or loss	85,600,361	60,271,863
Payment for purchases of financial instruments held at fair value through profit or loss	(244,843,480)	(97,883,571)
Net realised and unrealised (gain)/loss on financial instruments held at fair value through profit or loss	(98,057,113)	(14,478,086)
Investment income reinvested	(121,731)	-
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(796,580)	(76,064)
Increase/(decrease) in payables	4,349,441	1,108,216
Net cash and cash equivalents inflow/(outflow) from operating activities	<u>(159,710,310)</u>	<u>(36,623,863)</u>

(c) Non-cash Financing and Investing Activities

Non-cash financing and investing activities carried out during the year on normal commercial terms and conditions included:

Reinvestment of unitholder distributions	6,223,713	4,030,222
Participation in reinvestment plans	121,731	-
	<u>6,345,444</u>	<u>4,030,222</u>

NOTE 8: RELATED PARTY TRANSACTIONS

(a) General Information

On 30 June 2007, Pengana Capital Limited was appointed Responsible Entity to the Scheme. The Responsible Entity for the financial year to 30 June 2007 was Perpetual Trust Services Limited.

The Manager of the Scheme is also Pengana Capital Limited.

(b) Investments

(i) Related party investors in the Scheme

Details of related party investors in the Scheme are set out below:

2007	Number of units held	Interest held %	Number of units acquired during year	Number of units disposed of during year	Distributions paid or payable during year \$
Carole Francine Pillemer	222,882	0.15	168,382	-	19,781
Katrina Glendinning	23,332	0.02	6,533	-	1,197

PENGANA EMERGING COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 8: RELATED PARTY TRANSACTIONS (Continued)

2006	Number of units held	Interest held %	Number of units acquired during year	Number of units disposed of during year	Distribution paid or payable during year \$
Carole Francine Pillemer	54,500	0.10	-	-	1,238
Katrina Glendinning	16,799	0.03	-	-	-

The Director, Russel Pillemer, holds an interest in the Scheme through Carole Francine Pillemer's holdings.

(c) Transactions with the Responsible Entity and the Manager

All transactions between the Scheme and related parties have been at market value on normal commercial terms and conditions. This includes purchases and sales of investments as well as applications and redemptions of units.

In accordance with the Scheme Constitution, the Responsible Entity and Manager are 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.

There were no Responsible Entity fees paid by the Scheme for the year ended 30 June 2007 (30 June 2006: nil). The Responsible Entity fees were paid directly by the Manager.

In accordance with the Scheme Constitution, the Manager 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 include a performance based fee of 20.50% of the positive performance of the Scheme greater than the index it tracks.

	2007 \$	2006 \$
Management fees expensed during the year	2,514,223	681,139
Performance fees expensed during the year	7,098,612	1,145,699

During the year the Responsible Entity has incurred certain expenses on behalf of the Scheme. It is the Responsible Entity's intention not to seek reimbursement of these expenses from the Scheme.

(d) Key Management Personnel

AASB 124 "Related Party Disclosures" defines key management personnel (KMP) as including all non-executive directors, executive directors and any other persons having authority or responsibility for planning, directing and controlling the activities of the entity. The Scheme has no direct employees, however the non-executive directors and the executive directors of the Responsible Entity have been deemed to be directors of the Scheme. These individuals and the Responsible Entity comprise the KMP of the Scheme.

The names of each person holding the position of Director of the Responsible Entity from 1 July 2007 and until the date of this report are as follows:

Name	Position
Russel Pillemer	Director and Chief Executive Officer
Katrina Glendinning	Director and Chief Executive Officer
Stuart Stuckey	Director and Portfolio Manager
Nick Griffiths	Director and Chief Investment Officer

The names of each person holding the position of Director of the Responsible Entity for the financial year ended 30 June 2007 were as follows:

Patrick J. Nesbitt
Phillip A. Vernon
Ivan D. Holyman
Ian Pendleton

Remuneration paid to the Responsible Entity is detailed in Note 8(c) above. No director of the Responsible Entity was paid any remuneration by the Scheme during the year and their compensation paid by the Responsible Entity or related entities of the Responsible Entity is not related to services they render to individual schemes.

PENGANA EMERGING COMPANIES FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

NOTE 9: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations.

The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

(b) Market price risk

Market price risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market.

Market price risk is managed through ensuring that all investment activities are undertaken in accordance with established limits and investment strategies.

(c) Liquidity and cash flow risk

Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount or timing.

To control liquidity and cash flow risk, the Scheme invests in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the Scheme operates within established limits to ensure there is no concentration of risk.

(d) Interest rate risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of the changes in market interest rates. The Scheme's exposure to interest rate risk is on cash and cash equivalents only. The weighted average effective interest rate for cash and cash equivalents as at 30 June 2007 was 5.25% (30 June 2006: 4.75%).

NOTE 10: SEGMENT INFORMATION

The Scheme operates solely in the business of investment management.

The Scheme operates from and is domiciled in Australia.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Scheme had no commitments or contingencies at 30 June 2007 (30 June 2006: nil) other than those specified in the Financial Report.

NOTE 12: AUTHORISATION OF FINANCIAL REPORT

The financial report of the Pengana Emerging Companies Fund for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors of Pengana Capital Limited on the ²⁷th day of September 2007.

NOTE 13: EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2007 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly affected or may significantly affect the Scheme.

PENGANA EMERGING COMPANIES FUND

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Pengana Capital Limited, I state that:

In the opinion of the Directors of the Responsible Entity, at the date of this Statement:

- (a) The financial statements and notes of the Scheme are in accordance with the requirements of the Scheme Constitution and the Corporations Act 2001, and:
 - (i) are properly drawn up so as to present a true and fair view of the financial position of the Scheme as at 30 June 2007 and the results of its operations, changes in equity and cash flows for the year ended on that date; and
 - (ii) comply with Accounting Standards, the Corporations Regulations 2001 and mandatory professional reporting requirements.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of Pengana Capital Limited:



Director

Dated this ²⁷th day of September 2007, Sydney

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
Direct Phone +61 2 82661041
Direct Fax +61 2 82861041
www.pwc.com/au

Independent auditor's report to the members of

Pengana Emerging Companies Fund

Report on the financial report

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

Directors' responsibility for the financial report

The directors of the registered scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

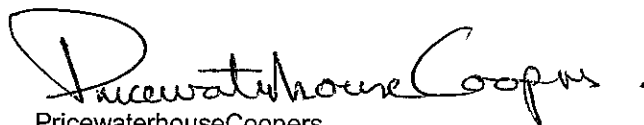
Independence

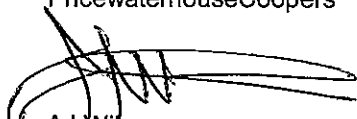
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Pengana Emerging Companies Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the registered scheme's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).


PricewaterhouseCoopers


AJ Wilson
Partner

Sydney
28 September 2007