

Pengana Asia Special Events Fund

ARSN 145 116 810

Financial report

For the period from 21 July 2010 to 30 June 2011

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This financial report covers Pengana Asia Special Events Fund (ARSN 145 116 810) as an individual entity.

The Responsible Entity of Pengana Asia Special Events Fund is Pengana Capital Limited (ABN 30 103 800 568)

The Responsible Entity's registered office is:

Macquarie House, Level 12, 167 Macquarie Street, Sydney, NSW 2000.

Directors' report

The directors of Pengana Capital Limited, the Responsible Entity of Pengana Asia Special Events Fund (the "Fund"), present their report together with the financial report of the Fund, for the period ended 30 June 2011.

Principal activities

The Fund invests its assets in the Australian dollar denominated shares issued by the Pengana Asia Special Events (Offshore) Fund which in turn invests in the Australian dollar denominated shares issued by the Pengana Asia Special Events Master Fund in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the period.

There were no significant changes in the nature of the Fund's activities during the period.

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Pengana Capital Limited
Investment Manager	Pengana Capital Limited
Custodian and Administrator	BNP Paribas Fund Services Australasia Pty Limited
Statutory Auditor	PricewaterhouseCoopers

Directors

The following persons held office as directors of Pengana Capital Limited during the period or since the end of the period and up to the date of this report:

Russel Pillemer
Katrina Glendinning
Nick Griffiths

Review and results of operations

The Fund continued to invest funds in accordance with the Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	21 July 2010 to 30 June 2011 \$
Net operating profit before finance costs attributable to unit holders	<u>21,034</u>
Distributions	<u>(21,034)</u>

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of the affairs of the Fund that occurred during the period under review.

Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of the affairs of the Fund in future financial years.

Directors' report (continued)

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Pengana Capital Limited or the auditors of the Fund. So long as the officers of Pengana Capital Limited act in accordance with the Fund's Constitution and the Law, the officers remain fully indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the period are disclosed in Note 10 to the financial statements.

No fees were paid out of Fund property to the directors of Pengana Capital Limited during the period.

The number of interests in the Fund held by Pengana Capital Limited or its associates as at the end of the financial period are disclosed in Note 10 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the period is disclosed in Note 6 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

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

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 4.

This report is made in accordance with a resolution of the directors of Pengana Capital Limited.



Director

Sydney

29 September 2011



Auditor's Independence Declaration

As lead auditor for the audit of Pengana Asia Special Events Fund for the year ended 30 June 2011, 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 Asia Special Events Fund during the period.

A handwritten signature in blue ink, appearing to read 'Joseph Sheeran', is written over a light blue horizontal line.

Joseph Sheeran
Partner
PricewaterhouseCoopers

29 September 2011

Pengana Asia Special Events Fund
Statement of comprehensive income
For the period from 21 July 2010 to 30 June 2011

	Notes	For the period from 21 July 2010 to 30 June 2011 S
Investment income		
Interest income		738
Net gains on financial instruments held at fair value through profit or loss	5	<u>24,504</u>
Total net investment income		<u>25,242</u>
Expenses		
Management fees	10	811
Performance fees	10	3,257
Other operating expenses		<u>140</u>
Total operating expenses		<u>4,208</u>
Operating profit		21,034
Finance costs attributable to unitholders		
Distributions to unitholders		<u>(21,034)</u>
Profit/(loss) for the period		-
Other comprehensive income		<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u>-</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Pengana Asia Special Events Fund
Balance sheet
As at 30 June 2011

	Notes	As at 30 June 2011 \$
Assets		
Cash and cash equivalents	7	736
Receivable for securities sold		524,364
Receivables	8	<u>2</u>
Total assets		525,102
Liabilities		
Distribution payable		14,506
Payables	9	<u>4,068</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>18,574</u>
Net assets attributable to unitholders - liability	6	<u>506,528</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Pengana Asia Special Events Fund
Statement of changes in equity
For the period from 21 July 2010 to 30 June 2011

For the period from
21 July 2010
to
30 June 2011
\$

Total equity at the beginning of the period	-
Profit/(loss) for the period	-
Other comprehensive income	-
Total comprehensive income for the period	-
Transactions with owners in their capacity as owners	-
Total equity at the end of the period	-

Under Australian Accounting Standards, 'Net assets attributable to unitholders' is 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 Asia Special Events Fund
Statement of cash flows
For the period from 21 July 2010 to 30 June 2011

	Notes	For the period from 21 July 2010 to 30 June 2011 S
Cash flows from operating activities		
Purchase of financial instruments held at fair value through profit or loss		(499,860)
Interest received		736
Payment of other operating expenses		<u>(140)</u>
Net cash outflow from operating activities	11(a)	<u>(499,264)</u>
Cash flows from financing activities		
Proceeds from applications by unitholders		<u>500,000</u>
Net cash inflow from financing activities		<u>500,000</u>
Net increase in cash and cash equivalents		<u>736</u>
Cash and cash equivalents at the end of the period	7	<u>736</u>
Non-cash financing activities	11(b)	6,528

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

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1 General information

This financial report covers Pengana Asia Special Events Fund ("the Fund") as an individual entity.

The Responsible Entity of the Fund is Pengana Capital Limited (ABN 30 103 800 568) (the "Responsible Entity"). The Responsible Entity's registered office is Macquarie House, Level 12, 167 Macquarie Street, Sydney, NSW 2000.

The Fund aims to achieve an annualised return of between 10-20% with a standard deviation of 6-10% by investing its assets in the Australian dollar denominated shares issued by the Pengana Asia Special Events (Offshore) Fund which in turn invests in the Australian dollar denominated shares issued by the Pengana Asia Special Events Master Fund as per the objectives stated in the Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on 29 September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 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, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001* in Australia.

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

The balance sheet is presented on a liquidity basis.

Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within 12 months after the end of each reporting period in relation to these balances cannot be reliably determined.

Compliance with International Financial Reporting Standards (IFRS)

The financial report of the Fund also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Financial instruments

(i) Classification

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

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in unlisted unit trusts.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis with other related financial information.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cashflows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

- Fair value estimation

The carrying amount of the Fund's assets and liabilities at the balance sheet date approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) 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 to the Fund at any time for cash equal to a proportionate share of the Fund'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 to the Fund. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

(d) Cash and cash equivalents

For the statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly 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 change in value.

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 Fund's main income generating activity.

(e) Investment income

Interest income on cash and cash equivalents is recognised in the statement of comprehensive income using the accruals method.

(f) Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

The benefit of any imputation credits and foreign tax paid are passed on to unitholders.

(h) Distributions

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

2 Summary of significant accounting policies (continued)

(i) Increase/decrease in net assets attributable to unitholders

Non-distributable income is included in net assets attributable to unitholders and may consist of unrealised changes in the net fair value of financial instruments held at fair value through profit or loss, derivative financial instruments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same period in which it becomes assessable for tax. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(j) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund'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 Fund competes for capital and is regulated. The Australian dollar is also the Fund'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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

(k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period. Trades are recorded on trade date, and normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(l) Receivables

Receivables include amounts where settlement has not yet occurred and are measured at their nominal amounts. Amounts are generally received within 30 days of being recorded as receivables. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

(m) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund, and are measured at their nominal amounts. Amounts are generally paid within 30 days of being recorded as payables. Given the short-term nature of most payables, the payable amount approximates fair value.

(n) Applications and redemptions

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

Unit prices are determined by reference to the net assets per the Fund's Constitution divided by the number of units on issue at pricing date.

(o) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees has been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%, hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

2 Summary of significant accounting policies (continued)

(p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(q) Accounting period

The Fund commenced operations on 21 July 2010. The information provided relates to the period 21 July 2010 to 30 June 2011.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The Responsible Entity's assessment of the impact of these standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. The Fund has not yet decided when to adopt AASB 9. However, the Responsible Entity does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund intends to apply the amended standard from 1 July 2011. The amendment is not expected to have any effect on the Fund's financial statements.

(iii) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 7 *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particular entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Fund's disclosures. The Fund intends to apply the amended standard from 1 July 2011.

(iv) Amendments to AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as a result of applying the revised rules.

3 Financial risk management

The Fund is exposed to credit risk, liquidity risk and market risk (including price risk and interest rate risk) arising from the financial instruments it holds. The Responsible Entity is responsible for managing these risks and does so through a process of ongoing identification, measurement and monitoring.

Risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably foreseeable changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept.

This information is prepared and regularly reported to relevant parties within the Responsible Entity.

As part of its risk management strategy, the Fund may use derivatives to manage certain risk exposures.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentration of risk, the Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

(a) Market risk

AASB 7 defines market risk as the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Fund's investment activities are undertaken in accordance with established mandate limits and investment strategies.

The Fund buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

(i) Price risk

Throughout the year, except at year end, the Fund was exposed to price risk through its investments in the Offshore Fund. This arises from investments held by the Fund for which prices in the future are uncertain. During the year the investment in the Offshore Fund is classified on the balance sheet at fair value through profit or loss. All investments in the Offshore Fund present a risk of loss of capital. The maximum risk is determined by the fair value of the Offshore Fund.

The Fund's investments in the Offshore Fund were realised at year end and classified as receivables for securities sold. Accordingly the Fund did not have any price risk at 30 June 2011. However the Fund was exposed to price risk during the year through its investment in the Offshore Fund and indirectly in the Underlying Fund.

(ii) Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. The impact of interest rate risk on net assets attributable to unitholders and operating profit is considered immaterial to the Fund.

(b) Credit risk

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

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to equity and derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, or where applicable ensuring that transactions are undertaken with a large number of counterparties.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

3 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount or timing.

These risks are controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

Financial liabilities of the Fund comprise trade and other payables, distributions payable and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days of the obligation arising.

Net assets attributable to unitholders are entirely payable on demand and the Responsible Entity ensures sufficient cash is held to meet redemption volumes.

The table below details the Fund's financial liabilities into the relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

	Less than 1 month	1-6 months	6-12 months	Over 12 months
	\$	\$	\$	\$
At 30 June 2011				
Payables	4,068	-	-	-
Distributions payable	14,506	-	-	-
Net assets attributable to unit holders	<u>506,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>525,102</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in fair value recognised in profit or loss.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

- Fair value in an inactive or unquoted market

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. Throughout the year the Fund's investment in the Feeder Fund was classified as level 2. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

3 Financial risk management (continued)

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and not provided by independent sources that are actively involved in the relevant market. As there were no investments held at 30 June 2011, the fair value hierarchy has not been presented.

(ii) Transfers between levels

There were no transfers between levels in the fair value hierarchy in 2011.

(iii) Movement in Level 3 instruments

There were no investments classified as level 3 within the Fund as at 30 June 2011.

4 Auditor's remuneration

The following fees were paid or payable for services provided by the auditor of the Fund:

	For the period from 21 July 2010 to 30 June 2011 \$
(a) Audit services	
<i>Audit services</i>	
PricewaterhouseCoopers	
Audit of the Financial Statements of the Fund	8,500
Other audit work under the <i>Corporations Act 2001</i>	5,000
Total remuneration for audit services	13,500
 (b) Non-audit services	
<i>Taxation services</i>	
PricewaterhouseCoopers	
Tax compliance services	5,600
Total remuneration for non-audit services	5,600

The fee is paid for by the Responsible Entity of the Fund.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	For the period from 21 July 2010 to 30 June 2011 \$
Financial instruments	
Net gain on financial instruments designated as at fair value through profit or loss	24,504
Total net gains on financial instruments held at fair value through profit or loss	24,504

6 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the period were as follows:

	For the period from 21 July 2010 to 30 June 2011	
	No.	\$
Applications	472,744	500,000
Units issued upon reinvestment of distributions	6,172	6,528
Closing balance	478,916	506,528

As stipulated in the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets in the Fund.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding 'net assets attributable to unitholders' is classified as a financial liability. Net assets attributable to unitholders can change significantly as the Fund is subject to applications and redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets by the Investment Manager. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

7 Cash and cash equivalents

	As at 30 June 2011 \$
Cash at bank	736
	736

Reconciliation to cash at the end of the period

The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:

Balances as above	736
Balances as per cash flow statement	736

8 Receivables

Interest receivable	2
	2

9 Payables

Management fees payable	811
Performance fees payable	3,257
	4,068

10 Related party transactions

Responsible Entity

The Responsible Entity of Pengana Asia Special Events Fund is Pengana Capital Limited (ABN 30 103 800 568). Accordingly, transactions with entities related to Pengana Capital Limited are disclosed below.

Key management personnel

Directors

Key management personnel includes persons who were directors of Pengana Capital Limited at any time during the financial period or since the end of the period end and up to the date of this report:

Russel Pillemer	Director and Chief Executive Officer
Katrina Glendinning	Director and Chief Operating Officer
Nick Griffiths	Director and Chief Investment Officer

Key management personnel unitholdings

At 30 June 2011, no key management personnel held units in the Fund.

Key management personnel compensation

Key management personnel are paid by a related party of the Responsible Entity. Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interests existing at year end.

Responsible Entity's fees and other transactions

Under the terms of the Fund's Constitution and the current Product Disclosure Statement for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees monthly and performance fee annually. The management fee is payable in respect of the Fund investment in the Offshore Fund and is calculated and payable monthly in arrears. The fee is paid directly from the Offshore Fund and is reflected in the unit price.

A management fee was accrued as at 30 June 2011 of \$811. This balance will reversed in the following year.

Transactions with related parties have taken place at arms length and in the ordinary course of business. The transactions during the period and amounts at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

	30 June 2011
	\$
Investment Management fees for the period	811
Performance fees expensed during the period	3,257
Aggregate amounts payable to the Investment Manager at the reporting date	811

Investments

The Fund did not hold any investments in Pengana Capital Limited during the year, however it did invest in the Australian dollar denominated shares issued by the Pengana Asia Special Events (Offshore) Fund which in turn invests in the Australian dollar denominated shares issued by the Pengana Asia Special Events Master Fund. Both the Offshore Fund and the Master Fund are related parties of Pengana Capital Limited. During the year the Fund acquired \$524,364 in the Offshore fund, however this was redeemed in full on 30 June 2011 and repurchased in full on 1 July 2011 in it's investment in the Offshore fund.

11 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

For the period from
21 July 2010
to
30 June 2011
\$

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

Profit/(loss) for the period	-
Distributions to unitholders	21,034
Purchase of financial instruments held at fair value through profit or loss	(499,860)
Net gains on financial instruments held at fair value through profit or loss	(24,504)
Net change in receivables	(2)
Net change in payables	4,068
Net cash outflow from operating activities	<u>(499,264)</u>

(b) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

	<u>6,528</u>
	<u>6,528</u>

12 Events occurring after the balance date

No other significant events have occurred since the balance date which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2011 or on the results and cash flows of the Fund for the period ended on that date.

13 Contingent assets and liabilities or commitments


There are no outstanding contingent assets and liabilities or commitments as at 30 June 2011.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 - 19 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the financial period ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director
Sydney

29 September 2011



Independent auditor's report to the members of Pengana Asia Special Events Fund

Report on the financial report

We have audited the accompanying financial report of Pengana Asia Special Events Fund (the registered scheme), which comprises the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Pengana Capital Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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.

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

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Independent auditor's report to the members of Pengana Asia Special Events Fund (continued)

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Pengana Asia Special Events 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 2011 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 registered scheme's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Joseph Sheeran'.

Joseph Sheeran
Partner

29 Sydney
September 2011