MAGELLAN
FINANCIAL GROUP LIMITED

2007 ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2007

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CONTENTS

Chairman's Letter	4
Investment Philosophy	8
Directors' Report	10
Corporate Governance Statement	18
Income Statement	22
Balance Sheet	24
Statement of Changes in Equity	26
Statement of Cash Flows	30
Notes to the Financial Statements	32
Directors' Declaration	54
Independent Audit Report	55
Shareholder Information	57
Corporate Directory	59

Dear Investor

I have great pleasure in writing to you as an investor in Magellan Financial Group. Our vision is that over time Magellan will become a world class funds management business based in Australia. We will only achieve this if we achieve superior risk adjusted returns over time for investors in our funds.

We are happy with Magellan's progress since the establishment of the business in November last year. In addition to hiring an outstanding team, which I discuss below, we have:

- put in place first class investment processes and procedures with an emphasis on risk management;
- completed the $378 million initial public offering of our listed investment company, Magellan Flagship Fund Limited, in December 2006 and invested those funds entrusted to us in a range of what we consider to be outstanding businesses whilst maintaining significant cash reserves;
- completed the recapitalisation of the Company with the Entitlements and Priority Offers in May 2007; and
- launched two unlisted funds, Magellan Global Fund and Magellan Infrastructure Fund in July 2007.

While we are satisfied with our progress to date and the early response from financial planners, research houses and potential investors to the launch of our new unlisted funds, it is important to recognise that success in the funds management business is not assured and it will certainly not happen overnight. It is likely to take some years to build the Magellan brand and reputation and create an investment track record for the funds that we manage.

We focus on three overall objectives:

- to attract, retain and develop an outstanding team;
- to achieve superior risk adjusted returns for our investors whilst minimising the risk of permanent capital loss; and
- to be an excellent partner for all our counterparties and intermediaries with whom we interact.

We currently have 26 professionals including experienced operating, financial, legal and compliance personnel. Our 13 strong investment management team is focused on three key sectors: Global Financial Services, Global Retail and Brands and Global Infrastructure.

We are delighted that the vast majority of our employees have recently participated in the staff share ownership scheme. Our employees have a material investment in the company and their interests are truly aligned with all other shareholders.

Chris Mackay and I would like to thank our independent directors Naomi Milgrom, Brett Cairns and Paul Lewis for their contribution and counsel this year. Each Director has a material investment in Magellan and we can assure you that they are each very committed to the success of Magellan.

Chris and I firmly believe that if we and our team are disciplined in our processes we should achieve superior risk adjusted returns for the investors in Magellan's funds. This should enable Magellan to attract significant funds under management and generate attractive returns for our shareholders.

Overview of our Investment Philosophy

Magellan's investment objective is to generate superior risk adjusted returns whilst minimising the risk of permanent capital loss.

Our investment philosophy is rational and, we believe, compelling and not practised by many in the market. Each of Magellan's 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. We 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 consider outstanding companies to be those that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. While we are extremely focused on fundamental business value, we are not typical "value" investors. Securities that appear undervalued on the basis of a low price to earnings multiple or a price to book multiple will often prove to be poor long term investments if the underlying business is fundamentally weak and exhibits poor returns on capital. We will buy companies that have both low and higher price to earnings and price to book multiples provided that the business is outstanding and the shares are trading at an appropriate discount to our assessment of intrinsic value.

Given we are seeking to buy companies at meaningful discounts to their underlying value we will often purchase companies that are "out of favour" with the investment community. Most investors do not follow such practices on a disciplined basis because it can be psychologically painful to buy "out of favour" companies even if they are outstanding. Out of favour companies sometimes fall in price after purchase but, if the analysis is correct, they usually rise in the medium term. As Benjamin Graham famously said: "In the short run, the market is a voting machine but in the long run it is a weighing machine".

We can be best described as a "value manager with a high business quality overlay". Set out in the attachment to this Chairman's letter is a copy of Magellan's Investment Philosophy.

Our Risk Management Approach in Current Markets

The recent volatility in debt and equity markets has highlighted some very material risks in the global financial system. We do not know whether a full blown financial crisis will develop, but we do know that the risk of such an event occurring has increased materially. Given our objective of minimising the risk of permanent capital loss for our investors, we are taking a cautious stance at the moment. We are maintaining high cash balances. However, we firmly believe that the most attractive investment opportunities can arise during periods of maximum pessimism. Thus, we believe that it is possible that "very compelling" investment opportunities will become available as events unfold and we will opportunistically deploy our available cash. In the meantime we are patiently seeking opportunities for superior risk adjusted returns.

Although we are absolutely focused on "bottom up" analysis of investment opportunities, we do seek to understand the context of key market events. Thus a few words on the unfolding liquidity crisis are warranted.

In early September, former Federal Reserve Chairman Alan Greenspan told a group of academics in Washington, D.C. that "the behavior we are observing in the last seven weeks is identical in many respects to what we saw in 1998, what we saw in the stock market crash of 1987, I suspect what we saw in the land-boom collapse of 1837, and certainly the bank panic of 1907", and Hank Paulson the US Treasury Secretary and former President of Goldman Sachs said that "the crisis of confidence in credit markets is likely to last longer than any of the financial shocks of the past two decades".

We believe that central bankers around the world are very concerned that the current situation has the potential to develop into a full blown financial crisis.

I will attempt to outline simply what are the issues that are so concerning and how this could develop into a full blown financial crisis.

Contrary to popular belief, we do not believe that the sub-prime lending crisis in the United States is the sole cause of the problem, nor the core issue the central bankers are really concerned about.

A worrying but less understood issue is off-balance sheet vehicles, known as conduits and structured investment vehicles, set up by commercial and investment banks to hold assets and loans. It is estimated that there is approximately US$1,400 billion of assets held in these vehicles around the world. These vehicles have primarily been financed with short term debt known as asset backed commercial paper. Investors in the asset backed commercial paper market virtually disappeared overnight, as they have become increasingly nervous about the asset quality inside these vehicles. This has the potential to cause major liquidity issues in the financial system as commercial and investment banks are being called on to provide massive funding lines to these vehicles to replace the asset backed commercial paper or to bring these loans back on balance sheet. To preserve liquidity, banks have become very reluctant to lend to each other in the short term inter-bank market. The inter-bank lending market is an essential element of a healthy financial system. In circumstances where funding cannot be found for these vehicles, assets will need to be liquidated which is likely to push down asset prices and trigger losses across the board.

Central bankers have reacted swiftly to this major issue by increasing the amount they are prepared to lend to banks on a short term basis and the United States Federal Reserve recently reduced the interest rate (known as the "Fed Discount Rate") that they charge to banks in order to try to ensure there is sufficient liquidity in the system.

A more concerning issue is the potential for a large scale global liquidity crisis amongst non-banking financial institutions and hedge funds. In our view, a possible cause of a large scale global liquidity crisis would be an effective collective "funding run" on a number of non-banking financial institutions or hedge funds, triggered by a fall in asset prices. This would be akin to a "depositors run" on the banking system. Hedge funds in our view are vulnerable to a "funding run" as they are typically highly leveraged and they do not have a permanent equity base as their capital is usually subject to quarterly redemptions. This makes these institutions far more vulnerable than a well capitalised bank with a large depositor base. A concurrent run by investors and lenders to withdraw their funding from hedge funds around the world is likely to cause an unprecedented financial crisis and is likely to result in a very material drop in asset prices across the board.

The banking system is relatively immune to a "depositors run" due to the central banks key function as the lender of last resort. Central banks do not act as lenders of last resort to non-banking financial institutions and hedge funds, and responding to such a situation would be very difficult for central banks. Cutting interest rates would do little, of itself, to alleviate such a situation, in our view. A number of market commentators have suggested that central banks should step in to act as a buyer of assets of last resort to ensure the financial system has sufficient liquidity to avert a full blown financial crisis. It is notable that the Hong Kong Government stepped in during the Asian financial crisis and bought equities across the board to provide liquidity to the market. In our view, central banks would be very reluctant to act in this capacity as they may effectively be seen as bailing out risk takers from the result of their investment decisions.

While we do not know whether a full blown financial crisis will develop, we believe the risk has increased materially. Thus, we have taken a cautious approach in advance of these events unfolding with the objectives of minimising the risk of a permanent capital loss and having capital available to take advantage of opportunities that may arise.

2007 Full Year Results

The reported full year profit of $3.0 million after tax for the year ended 30 June 2007 is not particularly meaningful as a predictor of the future as it included:

- The results of the Company prior to the restructure and recapitalisation on 17 November 2006. Following the restructure, the Company's activities and cost base has changed significantly;
- The profit on the realisation of investments prior to the restructure and recapitalisation of the Company of $2.5 million; and
- A non-cash Accounting Adjustment which increased the reported profit by approximately $4.7 million.

Excluding the non-cash Accounting Adjustment (discussed below) and the re-statement of the treatment of a $0.9 million after tax gain from the liquidation of existing investments prior to the recapitalisation in November 2006, Magellan would have reported an accounting loss of $2.6 million. This compares with a forecast loss of $2.8 million to $3.0 million. The better performance primarily reflects moderately lower recruitment and employment costs than forecast.

Accounting Adjustment

Given the materiality of the non-cash Accounting Adjustment on our profitability and balance sheet I believe it needs some explanation and why we believe it should be excluded from our results in order to understand the true financial position of the Company. For those of you who are not "accounting minded" you may want to skip this section.

The non-cash Accounting Adjustment relates to the accounting treatment for the potential issuance of Secondary Options. Under the terms of the Initial Options, an optionholder will be issued a Secondary Option upon exercise of their Initial Option. The Accounting Standards require that the Secondary Options be treated as a financial liability in the balance sheet. This accounting treatment means that we have had to record an accounting liability of $30 million on the balance sheet and an accounting profit of $4.7 million due to the decrease in the value of this liability from the date of issuance of the options to 30 June 2007. This accounting treatment is, in my view, a nonsense and makes it difficult for an investor to understand our financial statements. We discussed the issue in depth with our auditors and were informed that our financial statements would need to be qualified if we did not comply with this Accounting Standard. I can assure you we do not have an actual financial liability to any party, nor have we or will we realise a profit from the issuance of the Secondary Options.

During the year Magellan raised approximately $75 million in cash from the issue of shares and options, however, in complying with this accounting standard, we recorded an increase in contributed equity of only approximately $40 million. The difference of approximately $35 million arises from the recognition of the fair value of the Secondary Options as a financial liability. A reader of our financial statements may be highly concerned that we have lost $35 million of the cash that we raised this year. I can assure you that the reduction in contributed equity is only an "accounting entry".

What is more puzzling than the "disappearing equity" is the fact that gains and losses on the fair value of these Secondary Options are required to be recorded to the profit and loss statement. For the year ended 30 June 2007 we recorded a profit of $4.7 million due to the reduction in the value of the Secondary Options from date of issue to 30 June. Had the options been valued at 28 August 2007, we would have recorded a further profit of approximately $15 million due to a further reduction in the value of the Secondary Options.

This accounting treatment will continue to distort our reported profits and balance sheet for the next few periods and we will seek to provide sufficient information so that you can understand the underlying profitability and financial position of the Company. The good news is that after 30 June 2009 the financial liability component on the balance sheet will completely disappear.

2008 Financial Outlook

Given the 2007 financial results are not a meaningful predictor of the future, we have decided to provide some guidance on the 2008 outlook for the Company. For the 2008 financial year we have budgeted for a loss after tax of similar magnitude to the $2.8 million to $3.0 million loss that was forecast for 2007. This ignores the impact of any Accounting Adjustment for the Secondary Options and is before the impact of any performance fee that may be payable under the Management Services Agreement (MSA) discussed below.

The budgeted loss reflects the fact that we are investing in the start up of a new business. We believe it is critical that we do not cut corners and hire an outstanding team of people in all areas of the Magellan's business. This requires a substantial upfront investment in people and infrastructure.

The budgeted total expenses for the business, including the base management fee under the MSA, are approximately $15 million.

Revenue assumptions in the budget include full year investment management fees from Magellan Flagship Fund, our listed investment company, interest income on our cash balance and modest investment management fees from our new unlisted funds (Magellan Global Fund and Magellan Infrastructure Fund) launched in July 2007. We believe it is realistic to assume that investment management fees from the new unlisted funds will be modest in 2007/2008 as a whole, and particularly modest for the 6 months to 31 December 2007.

The budgeted loss reflects no material contribution or losses from the Company's investments to seed Magellan's listed and unlisted funds or from any principal investments or investments in other fund managers. There are currently no principal investments or investments in other fund managers and none have been made since the recapitalisation of Magellan in late 2006. As discussed above in relation to our risk management, it should be no surprise that we continue to take a prudent approach to considering any potential investments.

Management Services Agreement

Some of you may have read that Chris and I have proposed to examine whether the MSA arrangements between Magellan and NPH Funds Pty Limited (NPH Funds) can be restructured to an achieve an outcome that benefits Magellan's future development.

Chris and I believe that it is in the interests of all shareholders to restructure the MSA arrangements. In order to achieve an outcome that benefits all Magellan shareholders, we have proposed to the Board that we will forego our entitlement to any future performance fees for no compensation. While on its face this may appear relatively straightforward, it is complicated, primarily because the ownership of NPH Funds includes a public company, New Privateer Holdings Limited. We are very conscious of the legitimate interests of all parties, including the minority shareholders in New Privateer, and are hopeful that a proposal can be put forward that is fair to the shareholders of both Magellan and New Privateer. Core to any proposal will be that Chris and I forego our entitlements to any future MSA performance fees for no compensation.

I would like to thank you for your interest in Magellan and I look forward to meeting you at our Annual General Meeting, which will be held at our offices at Level 7, 1 Castlereagh Street, Sydney at 12 pm on Friday 26 October, 2007.

Yours sincerely

Hamish M Douglass

Chairman

18 September 2007

INVESTMENT PHILOSOPHY

Investment Objectives

The Magellan Funds have two principal Investment Objectives:

- to achieve superior risk adjusted investment returns over the medium to long-term; and
- to minimise the risk of permanent capital loss.

Investment Philosophy

Our Investment Philosophy is simple to state. We aim to find outstanding companies at attractive prices. We consider outstanding companies to be those that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. While we are extremely focused on fundamental business value, we are not typical "value" investors. Securities that appear undervalued on the basis of a low price to earnings multiple or a price to book multiple will often prove to be poor investments if the underlying business is fundamentally weak and exhibits poor returns on capital. We will buy companies that have both low and higher price to earnings and price to book multiples provided that the business is outstanding and the shares are trading at an appropriate discount to our assessment of intrinsic value.

An outstanding company will usually have some or (ideally) all of the following characteristics:

Wide Economic moat

An economic moat refers to the protection around an economic franchise which enables a company to earn returns materially in excess of the cost of capital for a sustained period of time.

Outstanding companies are unusual as capitalism is very efficient at competing away excess returns, in most cases.
A company's economic moat will usually be a function of some form of sustainable competitive advantage.

A strong indicator as to whether a company possesses an economic moat is the historical returns on capital (both including and excluding intangible assets) it has achieved. If a company has earned returns materially above the cost of its capital for a sustained period, it is a good indication that a company may have an economic moat. In some cases, a company may be developing a strong economic moat, but its historical returns on capital are low reflecting the investment in building a business with long-term sustainable competitive advantages. The key lesson is that historical returns on capital do not necessarily indicate whether a business has a wide economic moat and it is critical to fully understand the competitive advantages and threats which protect and threaten a company's economic franchise.

Identification of companies with wide economic moats involves consideration and assessment of the barriers to entry, the risks of substitutes, the negotiating power of buyers and suppliers to a company and intensity of rivalry amongst competitors.

The following are illustrations of sustained competitive advantages:

- Where it is very expensive for consumers to shift from the incumbent provider (that is, where there is a low threat of substitutes) because of, for example, cost, inconvenience and/or regulatory restrictions.
- Where the leading market participant has material economies of scale which gives it a significant cost advantage over competitors or new entrants.
- Where the business has a strong and unique brand name or is protected by long-term intellectual property rights such as copyright, patents, trademarks and/or regulatory approvals.
- Where a company has a very strong network (ideally monopoly or proprietary). For example, where it is the vital intermediary between buyers and sellers, a market maker or even a ring road that tolls workers and businesses use as they move people and goods. We are particularly interested in networks where access, pricing and volume are subject to market forces and are not regulated in a materially adverse manner.
- Where the use of psychological imperatives (such as, safety, exclusivity and quality) drives customer loyalty and enables companies to charge a premium for their products or services.

Each of these sustained competitive advantages is relatively unusual and it is particularly valuable where a strong competitive advantage prevails over a long period of time. Market-based monopolies and proprietary networks can provide the strongest and most sustainable competitive advantages, but are extraordinarily rare.

Re-investment Potential

We seek companies that have a moderate to high potential to continue to re-invest capital into the business at high incremental returns.

We believe that conventional investment analysis fails to properly assess the potential of a business to deploy material amounts of additional capital into the business at attractive rates of return. This is a fundamental driver of value over time.

The most attractive types of companies are either:

- companies with wide economic moats which can continue to grow materially with very limited additional capital. These companies will exhibit rising returns on capital employed. These types of businesses are extraordinarily rare and extremely valuable; and

- companies with wide economic moats which have opportunities to deploy material amounts of capital into the business at high incremental rates of return. Examples include a strong retail franchise with substantial roll-out opportunity, or a retail banking or financial services franchise that can continue to grow its lending activities at attractive margins.

These types of businesses are rare and can be very valuable compounding machines". It is more usual to find businesses with wide economic moats which can only deploy very modest amounts of capital and exhibit modest growth potential. These businesses, while attractive, are less likely to be "compounding machines" than those with material high return re-investment opportunities.

We are therefore very focused on assessing a company's ability to continue to re-invest free cash flow at high rates of return. It is factors such as, store roll out potential, global expansion potential, the size of the market and market share potential, and market growth rates, which will drive this re-investment potential.

We judge re-investment potential as low, medium or high depending on the level of re-investment over the medium term as a percentage of net income, and the rate of return expected to be achieved.

Low business risks

The purpose of assessing business risk is to determine the predictability of cash flow and earnings projections. Businesses which are difficult to predict or could exhibit large variations in cash flows and earnings have high inherent business risk.

We assess business risk taking into account factors such as cyclicality, operating leverage, operating margin, financial leverage, competitive strength, regulatory and political environment and profitability.

We assign each company a risk assessment: low, medium and high. This is not an attempt to measure the volatility of the shares, but rather the predictability and strength of the underlying business.

Low agency risk

We term the risk surrounding the deployment of the free cash flow generated by a business as 'agency risk'.

A fundamental assumption inherent in a standard discounted cash flow valuation (DCF) is that free cash flows are returned to shareholders or are re-invested at the cost of capital. The reality is that this assumption is often flawed as free cash flow is often not returned to shareholders but, rather, cash is re-invested by companies at returns below the cost of capital. In these cases, businesses can end up being worth substantially less than implied by a DCF analysis. We term the risk surrounding the deployment of the free cash flow generated by a business as "agency risk".

A company which can deploy a substantial amount of free cash flow back into the business at attractive returns for a sustained period of time will almost certainly carry lower agency risk than a company which has limited opportunities to re-invest capital at attractive returns, unless the company is explicit about returning excess cash flow to shareholders via dividends and/or share buy-backs.

In assessing agency risk, we look at factors, including the structure and level of incentives offered to senior management, the level of share ownership by senior management and directors, the track record of management in pursuing acquisitions, the desire of management to grow their empire and the track record of management and the Board in acting in a shareholder friendly manner, including returning free cash flow to shareholders via share buy-backs and/or dividends.

The assessment criteria we apply in evaluating potential investments are depicted in the diagram below.

An ideal investment will normally have a number of combined favourable attributes operating together which would illustrate what Charlie Munger of Berkshire Hathaway describes as a "Lollapalooza" effect (which is a term for factors which will reinforce and greatly amplify each other).

Margin of Safety

We will only purchase an investment when there is a sufficient "margin of safety". The margin of safety is the discount we require before buying shares of a company. The bigger the assessed discount, the wider is our margin of safety.

The available margin of safety, we believe, is driven, in part, by prevailing market psychology. While not a driver of a company's quality or intrinsic value, the markets can have a profound, albeit rarely long-term, effect on the pricing of a company's shares. When short-term issues or concerns are worrying investors or other factors are resulting in excess enthusiasm (that is, irrational exuberance), shares will often be mis-priced relative to intrinsic value. While our process can make us appear to be out of step with trends, investing contrary to consensus thinking has the potential to provide investment opportunities. Understanding where current market sentiment lies and assessing the company within the context of whether the concern or excitement is being appropriately priced, is an important step in investing.

There are some exceptional businesses where the "Lollapalooza" effect is truly at work and the moat is so wide and the risks are so low that we will invest with a very modest margin of safety. It is more usual to find companies which do not have all the reinforcing factors at play which results in a higher level of risk and requires a higher margin of safety.

The Directors of Magellan Financial Group Limited (the "Company") submit their report for the Company, its controlled entities and Magellan Financial Group Trust (the "Trust") which together form the consolidated entity (the "Group") in respect of the year ended 30 June 2007.

Directors

The following persons were Directors of the Company during the year and up to the date of this report unless otherwise stated.

Name	Directorship	Appointed	Resigned
Hamish Douglass	Chairman and Executive Director	21 November 2006	-
Chris Mackay	Deputy Chairman and Executive Director	21 November 2006	-
Naomi Milgrom	Non-executive Director	20 December 2006	-
Paul Lewis	Non-executive Director	20 December 2006	-
Brett Cairns	Non-executive Director	22 January 2007	-
Roger Davis	Non-executive Director & Chairman	-	20 December 2006
Mark Beames	Non-executive Director	-	21 November 2006
Dean Smorgon	Non-executive Director	-	21 November 2006
Russel Pillemer	Executive Director	-	21 November 2006
Damien Hatfield	Executive Director	-	21 November 2006

Corporate Information

The Company is limited by shares and incorporated in Australia. The shares and options of the Company are publicly traded on the Australian Securities Exchange (ASX) – ASX Code: MFG and MFGOA.

Recapitalisation and De-stapling

The Company was previously called Pengana HedgeFunds Limited and the Trust was previously called Pengana HedgeFunds Trust. The names of the Company and the Trust were changed on 21 November 2006 following a meeting of shareholders to approve the recapitalisation of the Company and the introduction of new management led by Mr Douglass (the Chairman of the Company) and Mr Mackay (the Deputy Chairman of the Company). The recapitalisation involved the Company issuing approximately 77.4 million shares via a placement of approximately 38.4 million shares in November 2006 and the issuance of approximately 39.0 million shares in May 2007 pursuant to an Entitlements Offer to shareholders and a Priority Offer to certain other parties.

On 22 March 2007, shareholders of the Company and unitholders in the Trust voted to simplify the Group by de-stapling and winding up the Trust. From 22 March 2007, shares in the Company remained listed on the ASX as individual securities and units in the Trust were de-listed. The net assets of the Trust at the date of the de-stapling were nil. The Trust was wound up on 29 June 2007.

Principal Activity

The primary business activity of the Group is to establish a funds management business with an objective to offer international investment funds to Australian and New Zealand investors. Since the recapitalisation of the Company on 21 November 2006 the Company has:

- hired an outstanding team of 26 professionals, including a 13 strong investment management team;
- moved into offices at 1 Castlereagh Street, Sydney and established a presence in New York;
- completed the $378 million initial public offering of a listed investment company, Magellan Flagship Fund Limited (the Flagship Fund), in December 2006;

- launched two unlisted funds, Magellan Global Fund and Magellan Infrastructure Fund in July 2007;
- simplified the Group structure by de-stapling and winding up the Trust; and
- completed the recapitalisation of the Company with the Entitlements and Priority Offers in May 2007.

Trading Results

The Group's net operating loss after tax and minority interest and before the AASB 132 Accounting Adjustment (refer below) for the year ended 30 June 2007 was $1,694,000 (2006: $2,567,000 profit). The Group's total revenues were approximately $7.1 million, total expenses were $9.2 million and the income tax benefit was $0.9 million.

	2007 $'000	2006 $'000
Net operating loss attributable to members of the Company after tax and before AASB 132 Accounting Adjustment	**(1,694)**	**2,567**
AASB 132 Accounting Adjustment attributable to members of the Company *	4,681	-
Net profit attributable to members of the Company after AASB 132Accounting Adjustment	2,987	2,567

** The AASB 132 Accounting Adjustment discussion (below) provides further information.*

The revenues of the Group for the year ending 30 June 2007 of $7.1 million include:

- Investment management fees of $2.6 million which primarily reflects investment management fees earned from the managed listed investment company from launch in December 2006 to 30 June 2007.
- Interest income of $1.9 million on cash held by the Group which reflects that the majority of this cash was raised in May 2007. As at 30 June 2007 the Group held $74.4 million in cash, the majority of which was raised in May 2007.
- Non-recurring gains of $2.5 million arising from the liquidation of existing investments of the Group prior to the recapitalisation in November 2006.

The expenses of the Group for the year ending 30 June 2007 of $9.2 million include:

- Employment and recruitment costs of $5.6 million. The majority of our team members were hired in the second half of the 2007 financial year and therefore there was little or no off-setting revenue. As at 30 June 2007 the Group had 26 employees.
- Base fees of $1.55 million paid to NPH Funds Pty Ltd (NPH Funds) under the Management Services Agreement for the 7 month period from recapitalisation of the Company to 30 June 2007.
- Legal and professional fees of $0.3 million associated with the launch of the Magellan Global Fund and Magellan Infrastructure Fund and the de-stapling and winding up of the Trust

The Group's full year results are not directly comparable to those of the prior period due to activities undertaken as part of the recapitalisation of the business in November 2006 and the establishment of its globally focussed funds management business.

AASB 132 Accounting Adjustment

As part of the recapitalisation, the Company has issued options (Initial Options) to subscribe in shares of the Company. The total number of Initial Options on issue at 30 June 2007 was 28,334,066 (2006: nil). Upon exercise of an Initial Option, the option holder will be issued with one new ordinary share in the Company and one additional option (Secondary Option). Note 13 provides further information.

Australian Accounting Standard AASB 132 *Financial Instruments: Presentation* determines that the Initial Options are compound financial instruments comprising both an option on a share and an option on an option. AASB 132 further determines that the option on a share is an equity instrument and that the option on an option is a financial liability.

The financial liability component is valued at the date that the Initial Options were issued and at each subsequent reporting date. The financial liability is recognised on the Balance Sheet with subsequent changes in fair value recognised through the Income Statement. Note 2(i) to the financial statements provides further information on the recognition and measurement of the financial liability component of the Initial Option.

In the Directors' opinion this accounting treatment of the Initial Options should be supplemented with the inclusion of the additional explanations in this section of the Directors' Report and in note 2(i) to the financial statements in order to provide users of the financial report with the more useful information. The Directors have formed this view after considering:

- the inconsistent approach required by AASB 132 in treating the option on a share as an equity instrument and the option on an option as a financial liability;

- at the time the Initial Options are either exercised by, or expire on, 30 June 2009 the financial liability component recognised in the Balance Sheet will cease to exist;
- the Company will not be required to settle the financial liability component with cash. To the extent that the Initial Options are exercised it will be settled with the issue of a Secondary Option which will be treated as an equity instrument; and
- the fair value of the financial liability will change with movements in the prices of the Company's securities. Movements in the fair value are required to go through the Income Statement. To illustrate, the Directors determined that the fair value of the financial liability at 30 June 2007 was $1.06 per Initial Option. Applying the same valuation methodology to the relevant valuation inputs as at 28 August 2007, the value was $0.52 giving a total value of the financial liability of $14,734,000 (30 June 2007 $30,033,000).

The impact of the AASB 132 Accounting Adjustment on the capital and reserves of the Company is as follows:

	Balance before AASB 132 Accounting Adjustment $'000	Impact of AASB 132 Accounting Adjustment $'000	Per Balance Sheet 30 June 2007 $'000
Contributed equity	103,080	(37,715)	68,365
Retained earnings	(2,394)	4,681	2,287
Reserves	(1,203)	-	(1,203)
	99,483	(30,034)	69,449

Dividends and Distributions

The Group paid a Company dividend of 5.39 cents (fully franked) and a Trust distribution of 1.61 cents for a total of 7.0 cents per stapled security in December 2006. No other amounts have been declared by the Directors and none have been paid or are payable during the year and to the date of this report.

Changes in the State of Affairs

There were significant changes in the state of affairs of the Group that occurred during the year. These changes have been disclosed in this report or the financial statements.

Events Subsequent to the end of the Financial Year

On 3 July 2007, the Company subscribed for $15m and $5m respectively of units in the Magellan Global Fund and Magellan Infrastructure Fund, two new unlisted investment trusts of which Magellan Asset Management Limited (MAM), a controlled entity, is the Responsible Entity and Investment Manager.

There is a Management Services Agreement (MSA) between the Company and NPH Funds Pty Ltd (NPH Funds), details of which are set out in note 17. NPH Funds is 40% owned by a company controlled by Hamish Douglass, the Chairman of the Company, and 60% owned by New Privateer Holdings Limited (NPH) an ASX listed company in which Chris Mackay, the Deputy Chairman of the Company, has a 36% shareholding (approximately 55% on a fully diluted basis).

Since the end of the financial year, Hamish Douglass and Chris Mackay have advised the Boards of the Company and NPH that they do not wish to participate in any possible performance fees that may arise under the management services agreement between the Company and NPH Funds. Messrs Douglass and Mackay will examine whether, if they do not participate in any possible performance fees that may become payable, the arrangements, between the Company, NPH Funds, NPH and themselves can be restructured to achieve an outcome that benefits the Company's future development.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or in the financial statements that has significantly or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

Likely Developments and Expected Result of Operations

The Group will continue to pursue its financial objective which is to increase the profitability of the Company over time by increasing the value and performance of funds under management and by containing costs.

The methods of operating the Group are not expected to change in the foreseeable future.

Rounding Off of Amounts

The Group is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and consequently amounts in the Directors' Report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Environmental Regulation

The Group is not subject to any particular or significant environmental regulation under Commonwealth, State or Territory legislation.

Auditor

Ernst & Young (the "Auditor") continues in office in accordance with section 307C of the *Corporation Act 2001*.

Audit and Non-audit Services

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the period are set out below.

The Directors, in accordance with advice received from the Audit Committee, are satisfied that the provision of those non-audit services during the period by the Auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services that the provision of non-audit services by the Auditor, as set out below, did not compromise the Auditor independence requirements of the *Corporations Act 2001.*

	2007 $	2006 $
Audit services:		
Auditors of the Company – Ernst & Young		
Audit and review of the annual financial report	112,412	72,148
Other services:		
Other regulatory audit services (AFSL)	9,000	-

Auditors' Independence Declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 17.

Information on Directors

Hamish Douglass

Chairman and Executive Director, and member of the Audit and Risk Committee

Mr Douglass has more than 15 years experience in financial services and has advised on some of the largest corporate transactions in Australia. Mr Douglass was formerly the Co-head of Global Banking at Deutsche Bank, Australasia. Mr Douglass is a Non-executive director of Magellan Flagship Fund Limited, Managing Director of NPH Funds Pty Limited and a Non-executive director of Catalyst Investment Managers Pty Limited. Mr Douglass is a member of the Australian Takeovers Panel.

Chris Mackay

Deputy Chairman and Executive Director

Mr Mackay has considerable experience in business management, business assessment, capital allocation, risk management and investment. Mr Mackay is the Chief Investment Officer of the Company, a Non-executive director of Magellan Flagship Fund Limited, Chairman of New Privateer Holdings Limited and a Director of Publishing & Broadcasting Limited. Mr Mackay retired as Chairman of UBS Australasia in March 2006, having previously been its Chief Executive Officer. Mr Mackay is a member of the Federal Treasurer's Financial Sector Advisory Council and a former member of the Business Council of Australia and Director of the International Banks & Securities Association.

Naomi Milgrom

Non-executive Director

Naomi Milgrom is the Executive Chair and CEO of Australia's largest speciality women's fashion retailer, the Sussan Group - comprising Sussan, Suzanne Grae and Sportsgirl. One of Australia's top business entrepreneurs, Ms Milgrom has combined business leadership with leadership in the arts, sciences and women's health, as Chair of the Australian Centre for Contemporary Art (ACCA), Chair of the Melbourne Fashion Festival, and Director of the Howard Florey Institute. Ms Milgrom was the first woman to deliver the Batman Oration on Australia Day 2006. The Centenary of Federation Medal was awarded to Ms Milgrom for her outstanding contribution to business and the fashion industry.

Paul L*ewis*

Non-executive Director and member of the Audit and Risk Committee

Mr Lewis was Managing Partner and Chief Executive – Asia, based in Hong Kong from 1992 – 2004, for PA Consulting Group, at the conclusion of which PA had offices in Hong Kong, Beijing, Tokyo, Bangalore, Singapore, Kuala Lumpur and Jakarta.

Mr Lewis led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Mr Lewis also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia. Mr Lewis is currently an Emeritus Partner with PA Consulting Group, and holds a number of senior advisory roles with British Telecom, namely, being on the Asia Pacific Advisory Board since 2003, the Global Advisory Board since 2005 and in senior advisory roles including local Chairman for Australia and New Zealand. He is a council member for the Australian British Chamber of Commerce and a director of PA Consulting Group's Asia businesses.

Brett Cairns

Non-executive Director and Chairman of the Audit and Risk Committee

Mr Cairns is co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Mr Cairns was a former Managing Director and Head of Debt Capital Markets for Merrill Lynch in Australia where he worked from 1994 to 2002. Prior to joining Merrill Lynch, Mr Cairns spent 3 years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group.

David Simpson

Company Secretary

Mr Simpson is the Company's General Counsel and Company Secretary of the Group and of the Flagship Fund and is General Counsel of MAM. Mr Simpson has over 20 years of experience as a corporate lawyer, specialising in large scale mergers and acquisitions, both public and private, and international offerings of debt and equity securities. Mr Simpson was a partner in Freshfields Bruckhaus Deringer ("Freshfields"), one of the world's largest law firms, and before that was a partner in one of Australia's leading law firms, Allen Allen & Hemsley (now Allens Arthur Robinson). From 1991 to 2004, Mr Simpson was based in Asia, living and working as a corporate lawyer in Indonesia from 1991 to 1997 and Singapore from 1997 to 2004. Mr Simpson was the managing partner of both the Allens Arthur Robinson and Freshfields offices in Singapore.

Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2007 and attended by each Director.

	Board Meetings		Audit & Risk Committee Meetings	
	Held	Attended	Held	Attended
	While a Director		While a member	
Hamish Douglass	6	6	1	1
Chris Mackay	6	6	1	1
Naomi Milgrom	5	4	1	1
Paul Lewis	5	5	1	1
Brett Cairns	4	4	1	1
Roger Davis*	4	4	1	1
Mark Beames*	3	2	1	1
Dean Smorgon*	3	3	1	1
Russel Pillemer*	3	3	-	-
Damien Hatfield*	3	3	-	-

** resigned during the year*

Remuneration Report

This report details the policy for determining the remuneration of Directors and Executives and provides specific detail of their remuneration.

Remuneration of Non-executive Directors

The Executive Directors review and determine the remuneration of the Non-executive Directors and may utilise the services of external advisors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-executive Directors. The remuneration of the Non-executive Directors is not linked to the performance of the Group.

Remuneration of Executive Directors

The Executive Directors were not remunerated in relation to acting as Directors or as Executives of the Group.

Remuneration of Executives

The remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified executives in order to achieve the Group's objectives. Executive remuneration is a combination of fixed and variable remuneration that takes into account the executives experience, abilities and achievements.

The fixed compensation is structured as a total employment cost package, which the executive may elect to receive as a combination of cash, non-cash benefits and superannuation contributions. There are no guaranteed increases to the fixed remuneration, however it is reviewed annually to ensure that it is competitive and reasonable.

The variable compensation is performance related and is determined by the Board after consideration of the Executives skills and contributions to the achievement of the Group's objectives as measured by such indicators as the performance of the Group and the performance of the Flagship Fund, the Magellan Global Fund and the Magellan Infrastructure Fund as appropriate.

The Directors do not consider it appropriate to assess Executive performance solely against short term indicators. A focus on short term indicators may encourage performance that is not in the best interests of the Group and its shareholders. The Directors are more concerned that the Executives are motivated to build shareholder wealth over the long term.

Share Purchase Plan

The Group has put in place a Share Purchase Plan for its employees and Non-executive Directors (Participants). The plan will provide assistance to Participants to invest in shares in the Company in order to more closely align the interests of Participants with the interests of the shareholders of the Group.

Employees will be invited to apply for a specified number of fully paid ordinary shares in the Company once a year. The number of Company shares that may be offered is limited to:

(a) for the initial offer of Shares, after release of the Group's full year 30 June 2007 financial results in September 2007:
  (i) shares with a market value equal to a multiple of four times the employee's after-tax bonus for the year ending 30 June 2007; and
  (ii) such further number of plan shares as approved by the Board;

(b) for any subsequent offer of shares:
  (i) shares with a market value equal to a multiple of one times the employee's after-tax bonus for the financial year (ending 30 June) prior to the financial year in which the subsequent offer is made; and
  (ii) such further number of shares as requested and approved by the Board,

and, in each case:
  (iii) subject to a maximum of $750,000 worth of shares per employee in each financial year, other than in the case of a new employee where the Board may resolve, in its absolute discretion, to initially offer additional shares to the new employee; and
  (iv) the aggregate maximum number of shares issued under each subsequent offer under the Share Purchase Plan will not exceed 5% of the total number of shares on issue at the time of the offer provided that the Company may issue additional Company shares in any subsequent offer up to, but not exceeding, the number of shares that it has bought back in the period since the last offer of shares under the Share Purchase Plan.

Participating Non-executive Directors will be invited to apply for up to 1,000,000 shares on a once only basis.

No performance hurdles will attach to the invitation to participate in, or the issue of shares under, the Share Purchase Plan. The Directors can resolve to vary the timing of these invitations.

The issue price for the shares will be the fair market value of the shares at the offer date. This will ordinarily be calculated using the volume weighted average price of traded shares in the 5 business days prior to the offer date.

Participants will be required to pay an amount equal to 25% of the issue price at the time of issue. The remaining 75% of the issue price will be funded by way of a full recourse interest free loan from the Company.

Employees will be required to apply 25% of their after tax annual bonus each year to repay the loan until the loan has been fully repaid. The maximum term of the loan for employees is 10 years. Any outstanding balance at the end of 10 years must be repaid by the employee. Employees will not be entitled to repay their loan early.

Participating Non-executive Directors will be required to repay the loan on the fifth anniversary of the date of issue of their shares. Participating Non-executive Directors will be entitled to repay their loan early.

Loans to Participants under the plan will be secured on the shares issued to that Participant. The shares will not be transferable until the loan is fully paid. Once the loan has been fully repaid, the shares will be freely transferable.

Dividends will be payable on the shares issued under the Share Purchase Plan on the same basis as all other issued fully paid ordinary shares, and will be applied to repay the loan until the loan has been fully repaid.

The plan shares will have the same rights to participate in any entitlements or bonus issues and will otherwise rank equally with all other issued ordinary shares.

Directors' fees

The Non-executive Directors' base remuneration is reviewed annually.

Retirement benefits for Directors

No retirement benefits (other than superannuation) are provided to Directors.

Details of Remuneration

The Executive Directors have not been remunerated by the Group in relation to acting as Directors of the Group or, in the case of Mr Douglass, as a member of the Audit and Risk Committee.

Only the Non-executive Directors of the Company were remunerated by the Company and received the following amounts during the year:

Directors	Short Term Benefits	Post Employment Benefits	
	Primary Salary	Superannuation	Total
	$	$	$
Naomi Milgrom	10,477	927	11,404
Paul Lewis	10,000	-	10,000
Brett Cairns	8,333	-	8,333
Roger Davis	51,253	2,064	53,317
Mark Beames	1,274	37,750	39,024
Dean Smorgon	40,973	1,377	42,350

In addition to the Executive Directors, the remuneration of the Key Management Personnel is shown below:

Key Management Personnel		Short Term Benefits		Post Employment	
	Commencement Date	Salary	Cash Bonus	Superannuation	Total
		$	$	$	$
N Campbell Chief Financial Officer and Chief Operating Officer	6 July 2006	200,314	200,000	12,686	413,000
D Simpson General Counsel and Company Secretary	10 November 2006	133,517	110,000	8,458	251,975
D Barkas Group Financial Controller	23 April 2007	31,103	20,000	2,424	53,527

Service Agreements

Remuneration and other terms of employment for the Non-executive Directors are formalised in service agreements. The Executive Directors (Messrs Douglass and Mackay) do not have employment agreements and are not remunerated by the Group. All other employees have employment agreements. Messrs Douglass and Mackay have a financial interest in NPH Funds which has entered into a Management Services Agreement with the Company (details on the fees payable under the Management Services Agreement are set out in note 17 to the financial statements).

There are no fixed term agreements between the Group and its employees. Employment may be terminated with three months notice by either the Group or its employees. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave.

Directors' Interests in Contracts

No Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in note 17 to the financial statements.

Indemnification and Insurance of Directors and Officers

The Group has paid premiums to insure each of its Directors and Officers in office against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Group, other than conduct involving a wilful breach of duty in relation to the Group.

This report is made in accordance with a resolution of the Directors.

Hamish Douglass
Chairman

Sydney
30 August 2007

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

In relation to our audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2007, 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
30 August 2007

CORPORATE GOVERNANCE STATEMENT

Magellan Financial Group Limited (the "Company") is a listed company. The Board recognises the importance of good corporate governance. The Company's corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Company, and will remain under regular review.

The Board

The Board is responsible for the overall operation and stewardship of the Company and is responsible for its overall success and long-term growth and corporate governance. The Board will act in the best interests of the Company to ensure the business of the Company is properly managed.

Board Composition and Independence

There must be a minimum of three Directors and a maximum of ten Directors. The Board has a majority of independent Non-executive Directors.

The Board comprises:

- Directors with an appropriate range of skills, experience and expertise; and
- Directors who can understand and competently deal with current and emerging business issues.

The Board currently comprises five Directors, three of whom are Independent Non-executive Directors.

A Director must retire from office no later than the longer of the third annual general meeting of the Company or three years, following that Director's last election or appointment.

An independent Non-executive Director is a Non-executive Director who is independent of the Company and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

The Board is confident that each of the Directors will bring skills and qualifications to the Company which will enable them to effectively discharge their individual and collective responsibilities as Directors of the Company.

The Board considers that the number of Directors is sufficient to enable it to effectively discharge its responsibilities. However, the composition of the Board will be reviewed periodically and its independence, and that of the individual Directors, will be assessed as part of those reviews.

Board Charter

The Company's corporate governance policies revolve around a Charter the purpose of which is to:

- promote high standards of corporate governance;
- clarify the role and responsibilities of the Board; and
- enable the Board to provide strategic guidance for the Company and effective operational oversight.

The Charter will apply subject to applicable legal and regulatory requirements, including duties and obligations imposed on the directors by statute and general law. The Board may review and amend the Charter at any time.

The Board is responsible for:

- approving the appointment and removal of the Chairman and the Company Secretary;
- assessing the Company's overall performance;
- establishing committees of the Board and, in relation to each committee appointing the members and the Chairman, setting committee charters and delegating authority to relevant committees;
- subject to the law and the Company's Constitution, determining the remuneration of the Non-executive directors (including the members of all committees of the Board);
- nominating candidates for election to the Board by shareholders;
- reporting to shareholders;
- reviewing and having input into overall target portfolio composition;
- recommending to shareholders any increase or decrease in the share capital of the Company;
- issuing, allotting, granting options over, offering or otherwise dealing with or disposing of unissued shares in the capital of the Company or rights to subscribe for or convert any security into shares in the capital of the Company in accordance with the Company's Constitution. The Directors, however, will not, in the absence of extraordinary circumstances, do so without the approval of the Company's shareholders obtained in general meeting, unless such issue, allotment, grant of offer is made pro-rata to all of the Company's shareholders;
- making calls in respect of any money unpaid on shares and forfeiting or accepting surrender of shares in accordance with the Company's Constitution;
- approving an appropriate debt/equity ratio limit for the Company;
- approving material funding facilities for the Company;
- approving by the end of June of each year an operating budget for the Company, for the financial year ahead;
- approving the transfer or transmission of shares in accordance with the Company's Constitution, provided that such power may be delegated to a share registrar;

- approving the financial markets on which the Company's securities, including its shares, will be listed;
- approving any notifications to the relevant exchanges for listings, suspensions, delistings or relistings;
- declaring the amount of profits available for payment of dividends, to fix the amount of a dividend to be recommended to shareholders, and to declare and make arrangements for the payment of interim dividends in accordance with the Company's Constitution;
- approving the establishment of a dividend re-investment plan;
- approving the giving of guarantees and letters of comfort by the Company;
- approving any security, mortgage or other pledge given over any of the Company's assets or revenues;
- approving the Company's annual financial statements and reports to shareholders;
- approving the Company's half year financial statements and reports to shareholders;
- authorising charitable contributions by the Company;
- continuing the Board policy that the Company does not make donations to any political parties;
- reporting as appropriate, that the business is a going concern, with supporting assumptions or qualifications as necessary;
- on advice from the Audit & Risk Committee of the Board, approving the Company's accounting policies;
- approving the appointment and removal of the external auditors of the Company;
- considering and, if appropriate, accepting external audit reports, including management letters;
- reviewing any recommendation from the Audit & Risk Committee of the Board arising from internal audit reports;
- reviewing reports and appraisals from the Audit & Risk Committee of the Board on market and operational controls;
- reviewing and overseeing the implementation of a Code of Conduct;
- monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies;
- monitoring and ensuring compliance with best practice corporate governance requirements;
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively;
- convening meetings of shareholders (including the annual general meeting) and exercising all other powers relating to shareholders' meetings given to directors in the Company's Constitution;
- approving all resolutions being put and matters concerned with a notice of general meeting or annual general meeting;
- approving the Company's Continuous Disclosure Policy and monitoring compliance with this policy;
- approving the establishment of overseas branch registers of the Company;
- approving any material related party transaction and any transaction that any Director would directly benefit from; and
- approving any material conflict of interest that the Company or a Director may have prior to relevant transactions being entered into.

Subject to legal or regulatory requirement and the Company's Constitution, the Board may delegate any of the above powers to individual Directors, or committees of the Board. Any such delegation shall be in compliance with the law and the Company's Constitution.

Non-executive Directors' Remuneration Structure

The Non-executive Directors' fees are in each case $20,000 per annum plus reimbursement of expenses such as travelling expenses.

The Executive Directors, Chris Mackay and Hamish Douglass, will not receive any fees in relation to acting as Directors of the Company, nor will Hamish Douglass receive any fee as a member of the Audit & Risk Committee.

Two of the Non-executive Directors are entitled to participate in the Company's Share Purchase Plan, but no determination of the details of their participation was made in the reporting period.

Board Committees

The Board may from time to time establish committees to assist it in the discharge of its responsibilities. The Board has established the Audit & Risk Committee and the Investment Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors. The Board expects that, over time, the Directors will rotate on and off various committees. Committee members will be appointed for a three year term of office with staggered anniversary dates. A Nomination and Remuneration Committee is not required given the size and nature of the Company.

Performance of all committee members will be reviewed periodically by the Board.

Audit & Risk Committee

The Audit & Risk Committee must comprise:

- at least three Directors; and
- a majority of Independent Directors.

The Chairman of the Audit & Risk Committee is an Independent Non-executive Director and is not the Chairman of the Board.

The objective of the Audit & Risk Committee is to assist the Board to discharge its responsibilities in relation to:

- effective management of financial and operational risks;
- compliance with laws and regulations;
- accurate management and financial reporting;
- maintenance of an effective and efficient audit; and
- high standards of business ethics and corporate governance.

The Audit & Risk Committee will endeavour to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process;
- promote a culture of compliance within the Company;
- ensure effective communication between the Board and the Company's senior financial and compliance management;
- ensure effective audit functions and communications between the Board and the Company's auditor;
- ensure that compliance strategies and compliance functions are effective; and
- ensure that Directors are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.

Key Policies and Procedures

The Company acts in accordance with the following policies and procedures:

Continuous Disclosure Policy

The Company is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules and releasing relevant information to the market and shareholders in a timely and direct manner and to promoting investor confidence in the Company and its securities.

The Company:

- as a minimum complies with its continuous disclosure obligations under the *Corporations Act 2001* and the ASX Listing Rules;
- provides shareholders and the market with timely, direct and equal access to information issued by it; and
- ensures that information which is not generally available and which may have a material effect on the price or value of the Company securities (price sensitive information), is identified and appropriately considered by the Directors and senior executives for disclosure to the market.

The Company adheres to procedures which must be followed in relation to releasing announcements to the market and discussions with analysts, the media or shareholders.

The Company's market announcements will also be available on its website (www.magellangroup.com.au) after they are released to ASX.

Trading Policy

All Directors and employees of the Company may deal in:

- the Company's securities, which includes any shares in the Company, debentures (including convertible notes) issued by the Company, units of shares in the Company and options to acquire or subscribe for shares in the Company; and
- other financial products, which includes any shares, options, derivatives (including market index derivatives), debentures any other financial product able to be traded of any company, trust or other organisation, local domestic and international, in which the Company invests or proposes to invest,

with the objective that no Director or employee will contravene the requirements of the *Corporations Act 2001*, the ASX Listing Rules or any other applicable law.

This is designed to protect the reputation of the Company and to ensure that such reputation is maintained or perceived to be maintained by persons external to the Company.

An overriding principle is that the Directors and employees who possess non-public price sensitive information must not deal in the Company's securities.

Conflicts of Interest Policy

A 'conflict of interest' may arise where the Company makes internal decisions that may materially impact shareholders or other stakeholders. The Company takes conflicts seriously, as they have the potential to impact adversely on the Company's business, its obligations under the law, its ethical standards and its reputation.

The Company is committed to maintaining high moral and business ethics and ensuring that the conduct of all of its officers is exemplary, at all times. The Company sets itself high standards, and has implemented policies and procedures to achieve its aim.

The Company:

- addresses and resolves conflicts of interest as necessary precursor to the maintenance of the Company's ethics;
- wants to ensure that the quality of its business is not compromised by conflicts of interest;
- wants to ensure that adequate conflicts of interest management procedures are in place to minimise any adverse impact on shareholders and other stakeholders.

Related Party Transaction Policy

The Company has established a protocol for officers of the Company in negotiating and entering into transactions between the Company and related parties. This is directed at ensuring compliance with the law and the ASX Listing Rules when contracting with parties which are related parties of the Company. Procedures are followed when negotiating and entering into arrangements between the Company and related parties, aimed at ensuring that at all times the best interests of the Company are paramount without regard to the interests of related parties.

Corporate Reporting

In respect of the year ending 30 June 2007 the Chairman and Chief Financial Officer have certified to the Board that:

- the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the *Corporations Act 2001* (Act);
- the financial statements and notes referred to in paragraph 295(3)(b) of the Act for the financial period comply with the accounting standards;
- the financial statements and notes, including the additional disclosures relating the AASB 132 *Financial Instruments: Presentation* Accounting Adjustment for the financial period give a true and fair view (as per section 297 of the Act);

- any other matters that are prescribed by the *Corporations Regulations 2001* in relation to the financial statements and the notes for the financial period are satisfied;
- the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Revenue					
Management fee revenue	3	2,568	-	-	-
Dividend income		-	149	-	-
Interest income		1,866	203	1,713	105
Revaluation of financial assets	4a	-	1,928	-	-
Net gains on sale of financial assets	4b	2,493	1,686	(59)	4,913
Other revenue		148	76	89	226
Total revenue		7,075	4,042	1,743	5,244
Expenses					
Employee benefits expense		5,622	-	-	-
Depreciation and amortisation		36	-	-	-
Rental expense		208	-	-	-
Audit fees		121	72	77	45
Legal and professional fees		320	113	130	81
Management fee expense		1,678	332	1,678	298
Other operating expenses		1,172	711	329	450
Finance costs		-	89	-	-
Total expenses		9,157	1,317	2,214	874
Operating (loss) / profit before income tax		(2,082)	2,725	(471)	4,370
Income tax benefit / (expense)	5	937	(529)	141	(905)
Net operating (loss) / profit before AASB 132 Accounting Adjustment		**(1,145)**	**2,196**	**(330)**	**(3,645)**
AASB 132 Accounting Adjustment		4,681	-	4,681	-
Net profit after AASB 132 Accounting Adjustment		3,536	2,196	4,351	3,465
Deduct net profit / (loss) attributable to minority interests:					
- Magellan Financial Group Trust		471	-	-	-
- External minority interests		549	(371)	-	-
Net profit / (loss) attributable to members of the parent after AASB 132 Accounting Adjustment		**2,516**	**2,567**	**4,351**	**3,465**

[1] As explained in note 2(i), the AASB 132 Accounting Adjustment arises from the requirement to recognise one element of the capital structure of the Company as a financial liability rather than as an equity instrument and to recognise changes in fair value of this financial liability in the Income Statement.

		Consolidated	
		2007	2006
	Note	$'000	$'000
Operating (loss) / profit attributable to stapled security holders before AASB 132 Accounting Adjustment represented by:			
- Magellan Financial Group Limited		(2,165)	2,567
- Magellan Financial Group Trust		471	-
		(1,694)	2,567
Operating (loss) / profit attributable to stapled security holders before AASB 132 Accounting Adjustment represented by:			
- Magellan Financial Group Limited		2,516	2,567
- Magellan Financial Group Trust		471	-
		2,987	2,567
Earnings per stapled security			
Earnings attributable to stapled security holders after AASB 132 accounting adjustment			
Basic earnings per stapled security	6	**5.2 cents**	**8.5 cents**
Diluted (loss) /earnings per security	6	**(2.6 cents)**	**8.5 cents**
Earnings attributable to stapled security holders before AASB 132 accounting adjustment			
Basic (loss) /earnings per stapled security	6	**(3.0) cents**	**8.5 cents**
Diluted (loss) /earnings per security	6	**(3.0) cents**	**8.5 cents**

The Income Statement is to be read in conjunction with the accompanying notes to the Financial Statements.

BALANCE SHEET

AS AT 30 JUNE 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Assets					
Current assets					
Cash and cash equivalents		74,408	1,638	67,515	1,569
Trade and other receivables	8	1,982	203	413	226
Prepayments		64	22	5	9
Financial assets	9(a)	405	22,349	-	-
Total current assets		**76,859**	**24,212**	**67,933**	**1,804**
Non-current assets					
Property, plant and equipment	10	408	-	-	-
Financial assets	9(b)	24,772	10,852	32,772	27,293
Loan to controlled entity		-	-	1,150	-
Deferred tax assets	5(d)	2,594	776	1,422	776
Total non-current assets		**27,774**	**11,628**	**35,344**	**28,069**
Total assets		**104,633**	**35,840**	**103,277**	**29,873**
Liabilities					
Current liabilities					
Trade and other payables	11	5,151	108	1,063	41
Tax liabilities		-	675	-	675
Total current liabilities		**5,151**	**783**	**1,063**	**716**
Non-current liabilities					
AASB132 Accounting Adjustment	2(i)	30,033	-	30,033	-
Total non-current assets		**30,033**	**-**	**30,033**	**-**
Total liabilities		**35,184**	**783**	**31,096**	**716**
Net assets		**69,449**	**35,057**	**72,181**	**29,157**

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Equity					
Issued securities	2(i)	103,080	28,613	103,080	28,163
AASB 132 Accounting Adjustment		(34,715)	-	(34,715)	-
Contributed Equity	13	68,365	28,163	68,365	28,163
Reserves		(1,203)	(374)	(1,203)	(1,251)
Retained profit		2,287	1,348	5,019	2,245
Total attributable to members of the Group		**69,449**	**29,137**	**72,181**	**29,157**
Attributable to minority interests		-	5,920	-	-
Total equity		**69,449**	**35,057**	**72,181**	**29,157**

The Balance Sheet is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to Equity Holders of the Group					
	Contributed Equity	Retained Profits/ (Accumulated Losses)	Financial Assets Revaluation Reserve	Total	Minority Interests	Total Equity
30 June 2007	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Equity as at beginning of year	**28,163**	**1,348**	**(374)**	**29,137**	**5,920**	**35,057**
Net gains realised on disposal of available for sale financial assets	-	-	374	374	(700)	(326)
Net impact of disposal of controlling interest	-	-	-	-	(6,701)	(6,701)
Revaluation of other financial assets	-	-	(1,719)	(1,719)	-	(1,719)
Tax assets arising on revaluation of other financial assets	-	-	516	516	-	516
Transaction costs associated with the issue of securities (note 13)	(1,749)	-	-	(1,749)	-	(1,749)
Tax assets arising on transaction costs associated with the issue of securities (note 13)	525	-	-	525	-	525
Total income and expenses for the year recognised directly in equity	**(1,224)**	**-**	**(829)**	**(2,053)**	**(7,401)**	**(9,454)**
Net profit for the year	-	2,516	-	2,516	1,020	3,536
Total (expense) / income for the year	**(1,224)**	**2,516**	**(829)**	**463**	**(6,381)**	**(5,918)**
Issue of securities (note 13)	76,141	-	-	76,141	-	76,141
ASB 132 Accounting Adjustment	(34,715)	-	-	(34,715)	-	(34,715)
Dividends and distributions paid (note 7)	-	(1,577)	-	(1,577)	(471)	(2,048)
Equity issued to minority interests	-	-	-	-	911	911
Other	-	-	-	-	21	21
Total transactions with equity holders in their capacity as equity owners	**41,426**	**(1,577)**	**-**	**39,849**	**461**	**40,310**
Equity as at end of year	**68,365**	**2,287**	**(1,203)**	**69,449**	**-**	**69,449**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

	Attributable to Equity Holders of the Group					
	Contributed Equity	Retained Profits/ (Accumulated Losses)	Financial Assets Revaluation Reserve	Total	Minority Interests	Total Equity
30 June 2006	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Equity as at beginning of year	**28,827**	**(1,219)**	**-**	**27,608**	**464**	**28,072**
Acquisition of a controlling interest	-	-	-	-	4,943	4,943
Disposal of controlling interest	-	-	-	-	(476)	(476)
Revaluation of other financial assets	-	-	(534)	(534)	700	166
Tax assets arising on revaluation of other financial assets	-	-	160	160	-	160
Tax assets arising on transaction costs associated with the issue of stapled securities	470	-	-	470	-	470
Other	2	-	-	2	9	11
Total income and expenses for the year recognised directly in equity	**472**	**-**	**(374)**	**98**	**5,176**	**5,274**
Net profit / (loss) for the year	-	2,567	-	2,567	371	2,196
Total income / (expense) for the year	**472**	**2,567**	**(374)**	**2,665**	**4,805**	**7,470**
Issue of securities	-	-	-	-	-	-
Dividends and distributions paid	-	-	-	-	-	-
Buy back of stapled securities	(1,136)	-	-	(1,136)	-	(1,136)
Equity issued to minority interests	-	-	-	-	651	651
Total transactions with equity holders in their capacity as equity owners	**(1,136)**	**-**	**-**	**(1,136)**	**651**	**(485)**
Equity as at end of year	**28,163**	**1,348**	**(374)**	**29,137**	**5,920**	**35,057**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to Equity Holders of the Parent			
	Contributed Equity	Retained Profits / Accumulated Losses)	Financial Assets Revaluation Reserve)	Total Equity
30 June 2007	**$'000**	**$'000**	**$'000**	**$'000**
Equity as at beginning of year	**28,163**	**2,245**	**(1,251)**	**29,157**
Net gains realised on disposal of available for sale financial assets	-	-	1,251	1,251
Revaluation of other financial assets	-	-	(1,719)	(1,719)
Tax assets arising on revaluation of other financial assets	-	-	516	516
Transaction costs associated with the issue of securities (note 13)	(1,749)	-	-	(1,749)
Tax assets arising on transaction costs associated with the issue of securities (note 13)	525	-	-	525
Total income and expenses for the year recognised directly in equity	**(1,224)**	**-**	**48**	**(1,176)**
Net profit for the year	-	4,351	-	4,351
Total (expense) / income for the year	**(1,224)**	**4,351**	**48**	**3,175**
Issue of securities (refer note 13)	76,141	-	-	76,141
AASB 132 Accounting Adjustment	(34,715)	-	-	(34,715)
Dividens and distributions paid	-	(1,577)	-	(1,577)
Total transactions with equity holders in their capacity as equity owners	**41,426**	**(1,577)**	**-**	**39,849**
Equity as at end of year	**68,365**	**5,019**	**(1,203)**	**72,181**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

	Attributable to Equity Holders of the Parent			
	Contributed Equity	Retained Profits / Accumulated Losses)	Financial Assets Revaluation Reserve)	Total Equity
30 June 2006	$'000	$'000	$'000	$'000
Equity as at beginning of year	**28,827**	**(1,219)**	**-**	**27,608**
Revaluation of other financial assets	-	-	(1,787)	(1,787)
Tax assets arising on revaluation of other financial assets	-	-	536	536
Tax assets arising on transaction costs associated with the issue of stapled securities	470	-	-	470
Total income and expenses for the year recognised directly in equity	**470**	**-**	**(1,251)**	**(781)**
Net profit for the year	-	3,465	-	3,465
Total income / (expense) for the year	**470**	**3,465**	**(1,251)**	**2,684**
Buyback of stapled securities	(1,136)	-	-	(1,136)
Other	2	(1)	-	1
Total transactions with equity holders in their capacity as equity owners	**1,134**	**(1)**	**-**	**(1,135)**
Equity as at end of year	**28,163**	**2,245**	**(1,251)**	**29,157**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipt of fee income		1,686	-	120	-
Interest received		1,460	291	1,303	116
Dividends received		-	157	-	-
Proceeds from sale of held-for-trading financial assets		25,232	47,446	-	28,686
Purchases of held-for-trading financial assets		(944)	(72,696)	-	(42,384)
Other income received		-	61	-	-
Loan advanced to subsidiary		-	-	(1,150)	-
Tax paid		(675)	-	(675)	-
Administration and general expenses paid		(3,939)	(1,200)	(1,115)	(829)
Net cash inflows / (outflows) from operating activities	12	**22,820**	**(25,941)**	**(1,517)**	**(14,411)**
Cash flows from investing activities					
Proceeds from sale of financial assets		11,062	-	29,140	-
Purchases of financial assets		(26,732)	-	(34,491)	-
Net cash inflow on acquisition of controlled entity	14	697	-	-	-
Cash attributable to minority interests on disposal of controlled entity		(6,424)	-	-	-
Loan repayment to related party		(1,150)	-	-	-
Loans advanced		-	-	-	(13)
Proceeds from repayment of loans advanced		-	6	-	6
Purchase of plant and equipment		(719)	-	-	-
Net cash (outflows) / inflows from investing activities		**(23,266)**	**6**	**(5,351)**	**(7)**

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash flows from financing activities					
Proceeds from issue of securities	13	77,051	648	76,140	-
Payment of costs on issue of securities	13	(1,749)	-	(1,749)	-
Repurchase of securities via Buy-Back scheme		-	(991)	-	(991)
Repayment of loans		(13)	-	-	-
Interest paid		(22)	(588)	-	-
Dividends and distributions paid		(2,051)	-	(1,577)	-
Net cash inflows / (outflows) from financing activities		**73,216**	**(931)**	**72,814**	**(991)**
Net increase / (decrease) in cash and cash equivalents		72,770	(26,866)	65,946	(15,409)
Effects of exchange rate movements		-	(3)	-	-
Cash and cash equivalents at the beginning of the year		1,638	28,507	1,569	16,978
Cash and cash equivalents at the end of the year		**74,408**	**1,638**	**67,515**	**1,569**

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

1. Corporate Information

Magellan Financial Group Limited (the "Company") is a company limited by shares and incorporated in Australia. The shares of the Company are publicly traded on the Australian Securities Exchange (ASX).

Prior to 22 March 2007, the Company was party to an agreement to staple its shares to units in the Magellan Financial Group Trust (the "Trust"). The shares of the Company and the units of the Trust were jointly quoted on the ASX. The Constitutions of the Company and the Trust deemed that, as long as the two entities remained jointly quoted, the number of shares in the Company and the number of units in the Trust would be equal in number, and that the shareholders of the Company and the unitholders in the Trust would be identical.

On 22 March 2007, shareholders of the Company and unitholders in the Trust voted to amend the Constitutions of the Company and the Trust respectively to terminate the stapling agreement. From 22 March 2007, shares in the Company remained listed on the ASX as individual securities and units in the Trust were de-listed. The Trust was subsequently wound up on 29 June 2007. The net assets of the Trust at the date of the de-stapling were nil.

The Company was previously called Pengana Hedgefunds Ltd and the Trust was previously called Pengana Hedgefunds Trust. The names of the Company and the Trust were changed on 21 November 2006.

The nature of the operations and the principal activities of the Company are described in the Directors' Report.

2. Summary of Significant Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001.*

(a) Basis of Preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except for financial assets, which have been measured at fair value.

Comparative information in respect of the previous period has been re-classified where this assists in the understanding of the current period's financial report.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with AIFRS requires the use of certain critical accounting estimates and judgements, which are included below.

(c) New Standards Not Yet Adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group in the preparation of this financial report. The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application.

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require additional disclosures with respect to the Company's financial instruments.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1 *First-time Adoption of Australia Equivalents to International Financial Reporting Standards*. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* has been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing these financial statements. The impact of early adoption of this standard has been to remove disclosures previously presented under AASB 114 *Segment Reporting*. AASB 8 is effective for annual reporting periods beginning on or after 1 January 2009.
- AASB 101 *Presentation of Financial Statements* (October 2006) has deleted the Australian specific Illustrative Financial Report Structure and reinstated the current IASB 1 guidance on Illustrative Financial Statement Structure. The revised AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.

(d) Basis of Consolidation

The combined financial report of the Group comprises the consolidated financial reports of the Company and the Trust which were jointly quoted on the ASX until 22 March 2007 (refer note 1).

The Company has applied AASB 127: *Consolidated and Separate Financial Statements* and AASB Interpretation 1002: *Post-Date-of-Transition Stapling Arrangements* in the preparation of this financial report. The parent company in this arrangement is the Company, which consolidates the Trust. The results of the Trust have been included up to the date of de-stapling. In accordance with AASB Interpretation 1002, the results of the Trust and the interests of unitholders in the net assets and equity of the consolidated group have been disclosed as a minority interest.

In addition to the Trust, other controlled entities included within the consolidated financial report are:

	Ownership %	
	30 June 2007	30 June 2006
Pengana Absolute Return Real Estate Fund	-	76.61
Magellan Asset Management Ltd	100	-

The Company's controlling interest in Pengana Absolute Return Real Estate Fund was disposed of on 3 October 2006. The controlling interest in Magellan Asset Management Limited ("MAM") was acquired on 21 November 2006. The results of these entities have been included from the date control was acquired and excluded from the date control ceased. All controlled entities have a 30 June financial year end.

All inter-entity balances and transactions between entities in the consolidated group, including unrealised profits or losses, have been eliminated on consolidation. Accordingly policies of the subsidiaries have been changed where necessary to ensure consistency with those policies adopted by the parent entity.

Acquisitions have been accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority equity interests in the equity and the results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(e) Revenue Recognition

Management Fee Revenue

Base management fee revenue is recognised in the Income Statement as it accrues based on the entitlements set out in Investment Management Agreements and other fund documentation.

Performance fee revenue is recognised in the Income Statement when the Company's entitlement to it becomes certain, which will usually be at the end of the period to which the performance fee relates.

Interest Income

Interest income is recognised in the Income Statement as it accrues, using the effective interest rate method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Dividend Income

Dividend income is brought to account on the applicable ex-dividend date.

(f) Expense Recognition

Expenses are recognised in the Income Statement when a present obligation exists (legal or constructive) as a result of a past event that can be reliably measured. Expenses are recognised in the Income Statement if expenditure does not produce future economic benefits that qualify for recognition in the Balance Sheet.

(g) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as a current liability in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for sick leave are recognised as an expense when the leave is taken and measured at the rates paid or payable.

Bonus Plan

Liabilities and expenses for bonuses are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Long Service Leave

Liabilities for long service leave will be recognised when employees reach a qualifying period of continuous service.

(h) Income Tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period taxable income or loss based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the Balance Sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Financial Instruments

The Company has issued options (ASX code: MFGOA) (Initial Options) which when exercised entitle the option holder to be issued with one new ordinary share in the Company (ASX code: MFG) and one additional option (Secondary Option) (refer note 13).

The Initial Options are regarded by AASB 132 *Financial Instruments: Presentation* as compound financial instruments which comprise: (i) an option on a share; and (ii) an option on an option. The Standard regards the option on an option as a derivative contract for the future delivery of the Company's own shares and hence as a financial liability which is required to be measured at fair value.

The financial liability is valued as at the dates the Initial Options were issued and this value is recognised on the Balance Sheet. At each subsequent reporting date, gains or losses arising from changes in fair value are recognised in the Income Statement.

The financial liability components of the initial options have been measured at their theoretical fair values determined using a Black–Scholes option pricing framework as at the relevant Initial Option issue dates. Theoretical values have been used to determine the fair values at the relevant Initial Option issue dates as there was no market in the Initial Options until they were listed on ASX on 17 May 2007. At balance date, the financial liability components were measured at their market fair value using the observed market value for the Initial Options less a Black-Scholes option pricing framework value for the option on a share component of the Initial Options ((i) above).

The following primary assumptions have been adopted in determining the fair value of financial liability components of the Initial Options in the current financial year:

	21 November 2006 First Issue date (1)	16 May 2007 Second Issue date	29 June 2007
Initial Options			
Strike price	$1.20	$1.20	$1.20
Maturity date	30 June 2009	30 June 2009	30 June 2009
Interest Rate (semi-annual)	6.36%	6.59%	6.83%
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	30%	30%	30%
Secondary Options			
Strike price	$1.30	$1.30	$1.30
Maturity date	30 June 2011	30 June 2011	30 June 2011
Interest Rate (semi-annual)	6.27%	6.59%	6.94%
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	30%	30%	30%
No of Initial Options on issue (millions)	19.2	9.1	n/a
Cumulative Initial Options on issue (millions)	19.2	28.3	28.3
Closing market price for Shares (MFG) (1)	$2.30	$2.00	$2.20
Closing market price for Initial Options (MFGOA)	-	-	$2.22
Theoretical value of option on a share component of MFGOA	-	-	$1.16
Fair value of each Secondary Option	$1.33	$1.01	$1.06

(1) The market price of the Company's securities rose materially over the period from the announcement of the recapitalisation on 7 September 2006 (closing market price of $1.00) to 21 November 2006, being the First Issue Date.

(j) Earnings Per Share

Basic and diluted earnings per share are determined by dividing the operating profit after income tax by the weighted number of ordinary shares outstanding during the financial year.

(k) Cash and Cash Equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash at the end of the period, as shown in the Cash Flow Statement, is reconciled to the related item in the Balance Sheet.

(l) Financial Assets

Fixed Term Deposits

Fixed term cash deposits (maturity less than 1 year from balance date) are classified as current financial assets and are designated as assets held to maturity.

Held-for-Trading Financial Assets

Short-term trading securities are classified as held-for-trading financial assets and are carried at fair value. Gains or losses arising from changes in fair value are recognised in the Income Statement. All held-for-trading assets that were held by the Group are short-term investments held by Pengana Absolute Return Real Estate Fund, a controlled entity up until 3 October 2006.

Available-for-Sale Financial Assets

Long term investments are classified as available-for-sale financial assets and are carried at fair value. Unrealised changes in fair value are taken directly to an asset revaluation reserve within equity until the asset is sold, at which time the cumulative change in fair value previously reported in equity is recognised in the Income Statement.

Investments in operating subsidiaries are also classified as available-for-sale financial assets and are carried at cost in accordance with AASB 127: *Consolidated and Separate Financial Statements.*

From time to time, the Company may hold controlling interests in unlisted unit trusts which classify their long-term investments as 'at fair value through profit and loss'. On consolidation of these trusts into the results of the Group, these long-term investments are designated are available-for-sale financial assets to achieve consistency with long-term investments held directly by the Company. They are carried at fair value. Unrealised changes in fair value are taken directly to an asset revaluation reserve within equity until the asset is sold, at which time the cumulative change in fair value previously reported in equity is recognised in the Income Statement.

(m) Trade and Other Receivables

Receivables are recognised as and when they are due. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less any allowance for uncollectible amounts.

Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when there is evidence the amount will not be collected.

(n) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Furniture, fittings and leasehold improvements*
- over five to ten years

Computer equipment
- over two to three years

** where remaining lease term is less than five years, leasehold improvements are depreciated over the lease term.*

If the estimated recoverable amount of an asset is greater than its carrying amount, the carrying amount will be written down to the estimated recoverable amount.

(o) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for good and services received by the Company prior to the end of the financial period that remain unpaid at balance sheet date. They are recognised at the point where the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(p) Directors' Entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates.

Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(q) Contributed Equity

Ordinary shares issued by the Company and units issued by the Trust are classified as equity. Units issued by the Trust are separately identified as relating to minority interests in the Statement of Changes in Equity.

Transaction costs that arise on the issue of shares are shown in equity as a deduction, net of tax, from the proceeds from issue of shares.

(r) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not paid at balance date.

(s) Goods and Services Tax (GST)

Revenue, expenses and assets recognised net of the amount of any GST except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset.

3. Management Fee Revenue

MAM is appointed to act as Investment Manager for the Flagship Fund Limited (Flagship Fund).

Base Fee

A quarterly fee calculated at 0.3125% (excluding GST) of the market value of all assets less total indebtedness of Flagship Fund.

Performance Fee

An annual fee calculated as 10% (excluding GST) of the absolute dollar value of the investment performance (after deducting the base fee), if the total annual return in the relevant annual period:

- Exceeds the percentage change in the Australian Dollar MSCI for the relevant annual period and
- Exceeds the Australian Government 10-year bond rate on the first day of each quarter occurring within the relevant annual period.

No performance fee was earned for the year.

	Consolidated	
	2007	2006
	$'000	$'000
Management Fee Revenue		
Base fee	2,568	-
	2,568	**-**

4. Changes in the Fair Value of Financial Assets

The changes in fair value of financial assets recognised in the Income Statement comprise:

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
a) Revaluation of financial assets				
- held for trading	-	1,928	-	-
b) Net gain on sale of financial assets				
- held for trading	2,493	-	-	-
- available for sale	-	1,686	(59)	4,913
	2,493	**1,686**	**(59)**	**4,913**

5. Income Tax

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
a) Income tax attributable to the financial year differs from the prima facie amount payable on operating (losses) / profit. The difference is reconciled as follows:					
Operating (loss) / profit before income tax expense		(2,082)	2,725	(471)	4,370
Prima facie income tax credit / (expense) on operating loss at 30%		625	(817)	141	(1,311)
Net profits / (losses) of Magellan Financial Group Trust	i)	141	(494)	-	-
Other non-assessable income and non-deductible expenses		-	44	-	44
Minority interests share profit of other controlled trust – not subject to tax	ii)	171	376	-	-
Deferred income tax relating to issue transaction costs		-	(259)	-	(259)
Adjustments to prior period tax expense		-	517	-	517
Other		-	104	-	104
		937	**(529)**	**141**	**(905)**

i) The Magellan Financial Group Trust distributed all its income ($471,000) for the period ended 29 June 2007 and is not liable to pay tax. The reconciling item reflects the nominal tax effect of these earnings, computed at 30%.

ii) This is the nominal tax effect of the minority share ($569,000) of a controlled trust that is not normally subject to tax, calculated at 30%.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current income tax	-	(675)	-	(675)
Deferred income tax	937	146	141	(230)
	937	**(529)**	**141**	**(905)**

c) Income tax benefit / (charge) directly to equity comprises:

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current income tax	-	-	-	-
Deferred income tax arising from:-				
- Revaluation of financial assets available-for-sale	356	160	(20)	536
- Costs associated with the issue of securities (refer note 13)	525	470	525	470
	881	**630**	**505**	**1,006**

d) Deferred tax as at 30 June relates to the following:

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Tax losses carried forward	1,223	-	451	-
Costs associated with the issue of securities deductible in future years	527	211	527	211
Revaluation of financial assets available-for-sale	516	536	516	536
Other temporary differences	328	29	(72)	29
Deferred tax asset	**2,594**	**776**	**1,422**	**776**

6. Earning Per Stapled Security

The following reflects the earnings and weighted average stapled security data used in calculation of basic and diluted earnings per stapled security.

a) Earnings per security after AASB 132 adjustment

Basic earnings per security	Consolidated	
	2007	2006
	$'000	$'000
Net profit attributable to stapled security holders – basic	2,516	2,567
Weighted average number of securities for basic earnings per security ('000)	57,233	30,152
Basic earnings per stapled security	5.2 cents	8.5 cents
Diluted earnings per security		
Net (loss) / profit attributable to stapled security holders – diluted	**(1,694)**	**2,567**
Weighted average number of securities for diluted earnings per security ('000)	65,555	30,152
Diluted (loss) / earnings per stapled security	(2.6 cents)	8.5 cents

The net (loss) / profit attributable to stapled security holders on a fully diluted basis can be reconciled to the basic net profit as follows:		
Net profit attributable to stapled security holders – basic	2,987	2,567
Deduct AASB 132 accounting adjustment	(4,681)	-
Net (loss) / profit attributable to stapled security holders – diluted	**1,694**	**2,567**

	Consolidated 2007 $'000	Consolidated 2006 $'000
The weighted average number of securities on a fully diluted basis can be reconciled to the weighted average number of securities used to calculate basic earnings per security as follows:		
Weighted average number of securities already issued ('000)	57,302	30,152
Weighted average number of securities on assumed exercise of Initial Options ('000)	4,780	-
Weighted average number of securities on assumed exercise of Secondary Options ('000)	3,383	-
Weighted average number of securities for diluted earnings per security ('000)	65,555	30,152
b) Earnings per security before AASB 132 adjustment		
Net (loss) / profit attributable to stapled security holders	**(1,694)**	**2,567**
Weighted average number of securities for basic earnings per security ('000)	57,302	30,152
Diluted (loss) / earnings per stapled security	(3.0 cents)	8.5 cents

c) Further information

The Company has on issue 28.3m options (2006: nil) that represent potential ordinary shares. Details of the terms of these options are included in note 13.

The AASB 132 Accounting Adjustment arises from the classification of the option embedded in the Initial Options as a financial liability and the requirement to recognise changes in net market value of this liability in the Income Statement. This adjustment is no longer applicable once the Initial Options have been exercised and has been reversed in the determination of the earnings on a fully diluted basis.

For the calculation of the earnings per security before the AASB 132 Accounting Adjsutment, the effect of these options in the calculation of earnings per share for the current reporting period is anti-dilutive. The fully diluted earnings per security is therefore the same as the basic earnings per security. However, these options have the potential to dilute basic earnings per security before AASB 132 Accounting Adjustment in the future. There are no other potential ordinary shares on issue (2006: nil).

The net profit attributable to stapled security holders includes the net profit of the Trust up to and including 22 March 2007 when the units of the Trust were de-stapled from the shares of the Company (refer note 1). The earnings of the Trust post de-stapling were nil and the Trust was wound up on 29 June 2007.

7. Dividends and Distributions

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
a) Dividends and distributions declared and paid during the year				
Dividends on ordinary shares (5.39c per share)	1,577	-	1,577	-
Trust distribution (1.61c per unit)	471	-	-	-
Total per stapled security / share (7c per stapled security)	**2,048**	**-**	**1,577**	**-**

No final dividend has been declared.

	Parent	
	2007	2006
	$'000	$'000
b) Franking credit balance		
Balance at 1 July 2006	-	-
Franking credits arising from tax paid in year	675	-
Franking credits on dividends paid in year	(673)	-
Franking account balance at 30 June 2007	**2**	**-**

Dividends paid during the year were franked at 30% (2006: nil).

8. Trade and Other Receivables

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade receivables	321	-	-	-
Accrued interest	423	-	409	-
Loan to Carpe Diem Capital Pty Limited	-	137	-	137
Other	28	66	4	76
	772	203	413	213
Related party receivables				
- Controlled entity	-	-	-	13
- Other related parties	1,210	-	-	-
	1,982	**203**	**413**	**226**

9. Other Financial Assets

		Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
a) Current					
Held for trading - Unlisted unit trusts	i)	-	22,349	-	-
Held to maturity - Cash term deposits	ii)	405	-	-	-
		405	**22,349**	**-**	**-**
b) Non-current					
- Listed shares	iii)	24,772	-	24,772	-
- Unlisted shares – controlled entity	iv)	-	-	8,000	-
- Unlisted shares – other	v)	-	700	-	-
- Unlisted unit trusts – controlled entity	i)	-	-	-	17,141
- Unlisted unit trusts – other	i)	-	10,152	-	10,152
		24,772	**10,852**	**32,772**	**27,293**

c) Valuation Methodologies and Material Investments

i) The fair values of unlisted unit trusts are deemed to be the redemption unit prices at balance sheet date reported by the manager of those trusts.

Details of unlisted unit trusts that were controlled entities of the Company during the year are disclosed in note 2(d). The holding in other unlisted trusts at 30 June 2006 of $10.2m was wholly comprised of an investment in Wallace Australia Opportunities Fund. These units were redeemed on 30 September 2006 for consideration of $10.2m.

ii) The fair value of cash term deposits is determined on an amortised cost basis using the effective interest rate method.

iii) The fair value of listed shares are determined to be the closing bid price of shares on the last business day preceding the balance sheet date.

The holding in listed shares at 30 June 2007 comprises wholly of shares in the Flagship Fund, an ASX listed investment company of which MAM is the investment manager (refer note 2(d))

iv) The carrying value of shares in unlisted companies that are operating subsidiaries of the Company represent the cost of the investment in those subsidiaries, in accordance with AASB 127 : *Consolidated and Separate Financial Statements*. Details of controlled entities during the year are disclosed in note 2d.

v) Where there is no active market for shares in an entity, the directors select a valuation technique that, in their opinion, best estimates the fair value of the asset. Possible valuation techniques include using recent arms length market transactions, where available, referring to the fair value of another instrument that is substantially the same, discounted cash flow analysis or an option pricing model.

The investment of $0.7m in an unlisted entity at 30 June 2006 comprised a 20% holding in PAR Management Pty Ltd by the Trust. Fair value was determined with reference to an offer that had been received and accepted. The asset was sold for $0.7m on 14 November 2006.

10. Property, Plant and Equipment

	Consolidated					
	2007			2006		
	Leasehold Improvements $'000	Office Equipment, Fixtures and Fittings $'000	Total $'000	Leasehold Improvements $'000	Office Equipment, Fixtures and Fittings $'000	Total $'000
Cost at 1 July 2006	-	-	-	-	-	-
Additions	249	150	399	-	-	-
Aquisitions of controlled entity	12	33	45	-	-	-
Cost at 30 June 2007	**261**	**183**	**444**	**-**	**-**	**-**
Accumulated depreciation and impairment losses at 1 July 2006	-	-	-	-	-	-
Depreciation charge for the year	18	18	36	-	-	-
Accumulated depreciation and impairment losses at 30 June 2007	18	18	36	-	-	-
Net carrying amount at 30 June 2007	**243**	**165**	**408**	-	-	-

All property, plant and equipment is held by a controlled entity of the parent company. The net carrying value of property, plant and equipment of the parent company at 30 June 2007 is $nil (2006:$nil).

11. Trade and Other Payables

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade payables	173	6	33	1
Accrued interest	3,609	69	142	40
Other payables	559	33	65	-
	4,341	108	240	41
Related party receivables				
- Controlled entity	-	-	13	-
- Other related parties	810	-	810	-
	5,151	**108**	**1,063**	**41**

12. Cash Flow Statement Reconciliation

a) Reconciliation of net profit after tax to net cash flows from operations:

Net (loss) / profit after tax before AASB 132 Accounting Adjustment	(1,145)	2,196	(330)	3,465
Adjusted for:				
(Gains) on sale of available-for-sale financial assets	(269)	-	(59)	-
Unrealised (gains) on financial assets held for trading	-	(25,215)	-	(19,205)
Depreciation	37	-	-	-
Profit on share buy-back	-	(145)	-	(145)
Loss on impairment of loan	-	64	-	64
Other non-cash items	-	127	-	-
Changes in assets and liabilities				
(Increase) / decrease in trade debtors and other receivables	(954)	572	4	583
(Increase) / decrease in prepayments	(15)	18	(188)	25
(Increase) in deferred tax assets arising from operational cash flows	(937)	(776)	-	(776)
Decrease in financial assets held for trading	21,944	-	-	-
Decrease in other assets	-	114	-	-
(Increase) in loan receivable	-	-	(1,150)	-
Increase / (decrease) in trade creditors and other payables	4,834	(9,144)	1,022	(102)
(Decrease) /increase in current tax liabilities	(675)	675	(675)	675
Increase / (decrease) in deferred tax assets recognised	-	630	(141)	1,005
Net cash movement on acquisition and disposal of controlled entities	-	4,943	-	-
	22,820	**(25,941)**	**(1,517)**	**(14,411)**

13. Contributed Equity

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Contributed equity	68,365	-	68,365	-
Stapled securities - fully paid	-	28,163	-	28,163
	68,365	**28,163**	**68,365**	**28,163**

On 22 March 2007 shares in the Company were de-stapled from units in the Trust (refer note 1). All securities on issue by the Group as at 30 June 2007 were ordinary shares in the Company.

The Company has issued options (Initial Options) to subscribe in shares of the Company. The total number of Initial Options on issue at 30 June 2007 was 28,334,066 (2006: nil). The key terms and rights attaching to the Initial Options are as follows:

- Initial Options can be exercised during any two month period following the announcement of the Company's full year or half year results in each year prior to the expiry date.
- Upon exercise of an Initial Option, the option holder will be issued with one new ordinary share in the Company and one additional option (Secondary Option).
- The exercise price of the Initial Options is $1.20.
- The Initial Options expire on 30 June 2009.

The key terms of the Secondary Options are as follows:

- Secondary Options can be exercised during any two month period following the announcement of the Company's full year or half year results in each year prior to the expiry date.
- Upon exercise of a Secondary Option, the option holder will be issued with one new ordinary share in the Company.
- The exercise price of the Secondary Options is $1.30.
- The Secondary Options expire on 30 June 2011.

The movement during the year of Group securities on issue were as follows:

	Number			Value		
	Stapled Securities	Shares	Options	Total	AASB 132 Adjustment	After AASB 132 Adjustment
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2006	29,259	-	-	28,163	-	28,163
Placement – 24 November 2006	38,400	-	19,200	37,440	(25,459)	11,981
Issue costs (net of tax)	-	-	-	(1,033)	-	(1,033)
De-stapling – 22 March 2007	(67,659)	67,659	-	-	-	-
Entitlements and Priority Offers – 16 May 2007	-	39,696	9,134	38,701	(9,256)	29,445
Issue costs (net of tax)	-	-	-	(191)	-	(191)
Balance at 30 June 2007	**-**	**107,355**	**28,334**	**103,080**	**(34,715)**	**68,365**

14. Acquisition and Disposal of Controlled Entities

a) Acquisition of MAM

On 21 November 2006, the Company acquired 100% of the share capitalof MAM from NPH Funds, a related party of the Company. Consideration paid was $10 which represented the fair value of the net assets of MAM at the date of acquisition.

The fair values of the identifiable assets and liabilities of MAM at the date of acquisition were as follows

	$
Cash and cash equivalents	697,017
Trade and other receivables	426,342
Prepayments	27,151
Financial assets	165,000
Property, plant and equipment	44,240
Trade and other payables	(188,868)
Accurued expenses	(20,872)
Sub-ordinated loan from NPH Funds	(1,150,000)
Net assets	**10**
The net cash flow on acquisition was as follows:	-
Consideration paid	(10)
Net cash at aquisition date	697,017
Cash and cash equivalents	**697,007**

Since the date of acquisition, the Company has subscribed for an additional $8,000,000 of shares in MAM, bringing its total cost of investment to $8,000,010.

b) Disposal of Controlling Interest in Pengana Absolute Return Real Estate Fund

On 3 October 2006, the Company disposed of its controlling interest in the Pengana Absolute Return Real Estate Fund for $18.8m. The net assets of the fund at the date of disposal comprised financial assets held for trading. The net cash inflow to the group arising from this disposal was $18.8m.

15. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise listed shares in the Flagship Fund, and cash accounts. On 3 July 2007, the Company provided $15m and $5m of seed capital to the Magellan Global Fund and the Magellan Infrastructure Fund respectively, two unlisted unit trusts of which MAM is the Responsible Entity and Investment Manager. The Company continues to hold these investments.

Market and Foreign Currency Risk

The Group has direct exposure to market risk and foreign currency risk via its investment in the Flagship Fund, which is traded on the ASX, and its investments in the Magellan Global Fund and Magellan Infrastructure Fund (Unlisted Funds). The market price of the Flagship Fund shares is influenced by the fair value of the underlying investment assets it holds and by its exposure to foreign currency fluctuations. The fair value of the interests held in the Flagship Fund and the Unlisted Funds is directly related to the fair value of the underlying investments and foreign currency exposure of those funds.

The investments in the Flagship Fund and the Unlisted Funds (collectively the "Funds") will be held as long term investments. Changes in the fair value of these securities are taken to the asset revaluation reserve and thus do not affect the reported profit of the Group.

The Group also has indirect exposure to the market and foreign currency risks of the Funds via its entitlements to receive investment management fees and performance fees. Investment management fees are based on the asset values of the funds and performance fees are subject to performance hurdles being met and when earned are based on the performance of the Funds.

The policies adopted by the Flagship Fund to manage its market, foreign currency and other financial risks are disclosed in its 30 June 2007 Annual Report and the policies adopted by the Unlisted Funds to manage these risks are disclosed in their Product Disclosure Statements dated 23 July 2007.

Credit Risk

The Group's only significant credit risk is in relation to management and any performance fees receivable from the Funds. Investment management fees from the Flagship Fund are payable quarterly and are due within two weeks of the end of each quarter. Management fees from the Unlisted Funds will be payable monthly and due within two weeks of the end of each month. Any performance fees are receivable within two weeks of year end for the Flagship Fund and within two weeks of each half year end for the Unlisted Funds.

The ongoing ability of Funds to pay management fees to the Group is influenced by the market and foreign currency risks described above.

The Group's cash balances and financial assets are held with Westpac Banking Corporation Limited and National Australia Bank Limited in operating bank accounts, at call bank accounts and term deposits maturing in less than 12 months. The counterparty risk presented by these major banks is considered to be low.

Interest Rate Risk

The Group is exposed to interest rate risk via its cash balances, which have arisen from the capital restructure undertaken by the Group over the past year (see note 13). It is the Group's intended to maintain cash balances in short term, floating interest accounts so that the Group is able to take advantage of suitable opportunities to develop the business as they arise.

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

Liquidity Risk

The Group's investments in the Funds are intended as long term strategic investments and there is no intention to sell any their shares or redeem any of their units in the foreseeable future. The Group has sufficient cash reserves to finance business operations and new business opportunities in the short to medium term.

Consolidated 30 June 2007	Weighted average interest rate %	Floating interest rate $'000	Non-interest bearing $'000	Total carrying amount $'000
Financial assets				
Current				
Cash and cash equivalents	6.2	74,408	-	74,408
Trade and other receivables	-	-	1,982	1,982
Prepayments	-	-	64	64
Other financial assets (i)	6.4	405	-	405
		74,813	**2,046**	**76,859**
Non-current				
Other financial assets	**-**	**-**	**24,772**	**24,772**
Financial liabilities				
Current				
Trade and other payables	**-**	**-**	**5,151**	**5,151**
Non-current				
AASB 132 Accounting provision	**-**	**-**	**30,033**	**30,033**

(i) Other current financial assets comprise fixed term deposits provided as security for lease guarantees provided by the Group's bank in respect of its premises leases. These deposits mature within one year of balance sheet date. The Group is currently committed to providing security in this form but intends to renegotiate these arrangements with its bank and/or lessors.

Parent 30 June 2007				
Financial assets				
Current				
Cash and cash equivalents	6.2	67,515	-	67,515
Trade and other receivables	-	-	413	413
Prepayments	-	-	5	5
		67,515	**418**	**67,933**
Non-current				
Other financial assets	-	-	32,772	32,772
Loan to controlled entity	-	-	1,150	1,150
		-	**33,922**	**33,922**
Financial liabilities				
Current				
Trade and other payables	**-**	**-**	**1,063**	**1,063**
Non-current				
AASB 132 Accounting provision	**-**	**-**	**30,033**	**30,033**

Consolidated 30 June 2006	Weighted average interest rate %	Floating interest rate $'000	Non-interest bearing $'000	Total carrying amount $'000
Financial assets				
Current				
Cash and cash equivalents	4.5	1,638	-	1,638
Trade and other receivables	6.7	137	66	203
Prepayments	-	-	22	22
Other financial assets	-	-	22,349	22,349
		1,775	**22,437**	**24,212**
Non-current				
Other financial assets	**-**	**-**	**10,852**	**10,852**
Financial liabilities				
Current				
Trade and other payables	**-**	**-**	**108**	**108**

Parent 30 June 2006				
Financial assets				
Current				
Cash and cash equivalents	4.5	1,569	-	1,569
Trade and other receivables	6.7	137	89	226
Prepayments	-	-	9	9
		1,706	**98**	**1,804**
Non-current				
Trade and other receivables		**-**	**27,293**	**27,293**
Financial liabilities				
Trade and other payables	**-**	**-**	**41**	**41**

16. Key Management Personnel

Key management personnel include persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Group.

Details of Key Management Personnel

Directors

Name	Directorship	Appointed	Resigned
Hamish Douglass	Chairman and Executive Director	21 November 2006	-
Chris Mackay	Deputy Chairman and Executive Director	21 November 2006	-
Naomi Milgrom	Non-executive Director	20 December 2006	-
Paul Lewis	Non-executive Director	20 December 2006	-
Brett Cairns	Non-executive Director	22 January 2007	-
Roger Davis	Non-executive Director & Chairman	-	20 December 2006
Mark Beames	Non-executive Director	-	21 November 2006
Dean Smorgon	Non-executive Director	-	21 November 2006
Russel Pillemer	Executive Director	-	21 November 2006
Damien Hatfield	Executive Director	-	21 November 2006

In addition to the Executive Directors, the Key Management Personnel are shown below:

Executives

Name	Directorship	Appointed	Resigned
Nerida Campbell	Chief Financial Officer and Chief Operating Officer	6 July 2007	-
David Simpson	General Counsel and Company Secretary	10 November 2007	-
Darren Barkas	Group Financial Controller	23 April 2007	-

There were no changes of Key Management Personnel after balance date and before the date that the financial report was authorised for issue.

Compensation of Key Management Personnel

The Executive Directors have not been remunerated by the Group in relation to acting as Directors of the Group or, in the case of Mr Douglass, as a member of the Audit and Risk Committee.

Only the Non-executive Directors of the Company were remunerated by the Company and received the following amounts during the year:

	Short term Benefits Primary Salary $	Post-employment Benefits Superannuation $	Total $
Naomi Milgrom	10,477	927	11,404
Paul Lewis	10,000	-	10,000
Brett Cairns	8,333	-	8,333
Roger Davis	51,253	2,064	53,317
Mark Beames	1,274	37,750	39,024
Dean Smorgon	40,973	1,377	42,350

In addition to the Executive Directors, the remuneration of the Key Management Personnel is shown below:

	Short Term Benefits		Post Employment	
	Salary $	Cash Bonus $	Superannuation $	Total $
Nerida Campbell	200,314	200,000	12,686	413,000
David Simpson	133,517	110,000	8,458	251,975
Darren Barkas	31,103	20,000	2,424	53,527

Service Agreements

Remuneration and other terms of employment for the Non-executive Directors are formalised in service agreements. The Non-executive Directors' service agreements have no fixed term of agreement unless the Director is not re-elected by the Shareholders of the Company.

The Executive Directors (Mr Mackay and Mr Douglass) do not have service agreements. All other employees have service agreements. Messrs Douglass and Mackay have a financial interest in NPH Funds which has entered into a Management Services Agreement with the Company (details on the fees payable under the Management Services Agreement are set out in note 17).

There are no fixed term agreements between the Group and its employees. Employment may be terminated with three months notice by either the Group or its employees. There are no provisions for any termination payments other than for unpaid remuneration and accrued annual leave.

Equity Instrument Disclosure Relating to Key Management Personnel and Related Parties

Share Holdings

The number of ordinary shares held in the Company at balance date are:

Name	Balance at 1 July 2006	Acquisitions	Disposals	Balance at 30 June 2007
Naomi Milgrom	-	6,018,000	-	6,018,000
Paul Lewis	-	30,000	-	30,000
Brett Cairns	-	18,661	-	18,661
Hamish Douglass (i)	-	12,645,337	-	12,645,337
Chris Mackay (i) (ii)	-	20,728,698	-	20,728,698

(i) Mr Douglass and Mr Mackay are directors of NPH Funds Pty Ltd (NPH Funds). NPH Funds is 40% owned by a company controlled by Hamish Douglass and 60% owned by New Privateer Holdings Limited (NPH) a company of which Chris Mackay is a director and has a 36% shareholding (approximately 55% on a fully diluted basis). NPH Funds acquired during the year and owned at 30 June 2007 12,606,006 shares in the Company.

(ii) NPH acquired during the year and owned at 30 June 2007 6,696,651 shares in the Company.

Option Holdings

The number of Initial Options expiring 30 June 2009 held at balance date are:

Name	Balance at 1 July 2006	Acquisitions	Disposals	Balance at 30 June 2007
Naomi Milgrom	-	3,001,801	-	3,001,801
Paul Lewis	-	3,000	-	3,000
Brett Cairns	-	1,867	-	1,867
Hamish Douglass (i)	-	6,304,535	-	6,304,535
Chris Mackay (i) (ii)	-	9,992,874	-	9,992,874

(i) Mr Douglass and Mr Mackay are directors of NPH Funds Pty Ltd (NPH Funds). NPH Funds is 40% owned by a company controlled by Hamish Douglass and 60% owned by New Privateer Holdings Limited (NPH) a company of which Chris Mackay is a director and has a 36% shareholding (approximately 55% on a fully diluted basis). NPH Funds acquired during the year and owned at 30 June 2007 6,300,601 Initial Options in the Company

(ii) NPH acquired during the year and owned at 30 June 2007 3,069,666 Initial Options in the Company

The key terms and rights attaching to the Initial Options are disclosed in note 13.

17. Transactions with Related Parties

a) NPH Funds Pty Limited

i) Services Fee

The Company is party to a Management Services Agreement with NPH Funds under which it engages NPH Funds to provide strategic and management services. The directors of NPH Funds, Chris Mackay and Hamish Douglass, are also directors of the Company and of its controlled entity, MAM.

Under the terms of this agreement, the Company pays NPH Funds a quarterly Services Fee, calculated at the rate of 0.3125% per quarter of the market capitalisation of the Company at the end of the quarter. The market capitalisation is calculated with reference to the average daily volume weighted price for the last 10 days of that quarter.

The Management Services Agreement commenced on 21 November 2006 and the Company has recognised an expense of $1,412,955 in relation to the Service fee for the year ended 30 June 2007 (2006: nil). The balance owing from the Company to NPH Funds at balance sheet date in respect of this fee was $810,100.

ii) Performance Fee

Under the terms of the Management Services Agreement, an annual performance is payable to NPH Funds if the total return to shareholders of the Company from dividends received and share market price movements exceeds certain minimum hurdles.

The initial performance fee is payable as at 30 June 2008 if the total return to Company shareholders exceeds 10% for the period from 21 November 2006 until 30 June 2008. Subsequent performance fees are receivable on an annual basis thereafter, subject to the total return to shareholders for each year ending on 30 June of that year exceeding 10%.

For any period for which a performance fee is receivable, the amount of that fee will be:

- 10% of the dollar value of the total return to shareholders if that total return is greater than 10% but less than 20%.
- 15% of the dollar value of the total return to shareholders if that total return is greater than 20%.

If the average of the total return to shareholders over three consecutive periods for the purposes of calculating performance fees is less than 10%, no performance fee is receivable in respect of the third period even if the total return to shareholders for that period individually is in excess of 10%. Similarly, no performance fee is receivable for the year ended 30 June 2009 if the average total return to shareholders of that period and the initial period is less than 10%, even if the return for the year ending 30 June 2009 is greater than 10%.

No performance fee has crystallised during the year ended 30 June 2007 and no expense has been recognised in the Income Statement for the year ended 30 June 2007. A contingent liability exists in respect of the performance fee that may be payable as at 30 June 2008 in respect of the performance of the Company for the period to 30 June 2007. It is not possible to reliably estimate the fee that may be payable at that date.

iii) Issue of Share Capital

On 20 November 2006, the Company issued 10.5m shares and 5.25m options to NPH Funds under the recapitalisation programme. On 16 May 2007, the Company issued a further 2.1m shares and 1.0m options to NPH Funds. The shares were offered on an arms length basis on the same terms and conditions as those available to all other eligible investors.

iv) Acquisition of MAM

On 21 November 2006, the Company acquired 100% of the share capital of MAM from NPH Funds. Consideration paid was $10 which represented the fair value of the net assets of MAM at the date of acquisition. Details of the assets acquired are shown in note 14a.

v) Repayment of Sub-ordinated Loan

At the time of acquisition of MAM by the Company, MAM had a sub-ordinated loan from NPH Funds of $1,150,000. On 29 November 2006, the Company provided a new sub-ordinated loan facility to MAM and MAM repaid its loan from NPH Funds in full. Total interest of $18,958 (2006: $nil) was paid by MAM to NPH Funds in respect of the loan. Interest on the sub-ordinated loan was charged at a commercial rate.

vi) Administration Services Provided to NPH Funds

NPH Funds has engaged MAM to provide administration, secretarial and accounting services. During the year ended 30 June 2007, administration fee revenue of $50,000 has been earned (2006: nil). The balance owing from NPH Funds at 30 June 2007 in respect of these services was $50,000 (2006: nil).

b) The Flagship Fund

MAM is appointed as the investment manager of the Flagship Fund. Under the Investment Management Agreement, MAM is entitled to the following fees:

i) Base Fee

A quarterly fee is payable, calculated as 0.3125% of the market value of all assets held by the Flagship Fund less total debt. The total base fees earned by MAM from the Flagship Fund for the period from 12 December 2006 (date of appointment as investment manager) to 30 June 2007 were $2,567,900 (2006: $nil). The amount owing from the Flagship Fund to MAM at balance sheet date was $1,151,935 (2006: $nil).

ii) Performance Fee

MAM is entitled to an annual performance fee calculated as 10% of the absolute dollar value of the investment performance of the Flagship Fund (after deducting the base fee) provided that:

- the total annual return in that period exceeds the return of the A$ MSCI for the same period; and
- the total annual return in that period exceeds the Australian Government 10-year bond rate (measured as an average of the 10-year bond rate published in the Australian Financial Review, or similar publication, on the first day of each quarter occurring within the relevant annual period; and
- the portfolio value less borrowings on the last day of the relevant annual period is more than that on the last day of the last period for a which a performance fee was paid to the Company within the last three years.

No performance fee was receivable from the Flagship Fund for the initial period from 12 December 2006 to 30 June 2007 (2006: nil).

c) Magellan Asset Management Limited (MAM)

The Company has provided an interest-free sub-ordinated loan facility to its wholly owned subsidiary MAM. Under the terms of MAM's Australian Financial Services Licence, the loan cannot be repaid without the prior consent of the Australian Securities and Investments Commission. The current loan agreement commenced on 29 November 2006, following the acquisition of MAM by the Company. The amount drawn down on the facility at 30 June 2007 was $1,150,000 (2006: nil).

At balance date, there was also a balance of $13,473 payable to MAM in respect of expenses paid by MAM on behalf of the Company.

Prior to its acquisition by the Company, MAM incurred $355,943 of expenses on behalf of the Company. These were recharged at cost to the Company.

d) Magellan Financial Group Trust (the Trust)

MAM paid expenses of $48,640 on behalf of the Trust during the year ended 30 June 2007 in its capacity as Investment Manager of the Trust.

As part of the winding up of the Trust the Investment Manager acquired for cash the residual receivables and liabilities of the Trust. These comprised:

	$
Insurance premiums refundable	6,160
Other receivables	1,065
Expenses incurred, not yet invoiced	(2,387)
	4,838

Costs anticipated to arise in respect to completing the winding up of the Trust will be borne by MAM.

e) Pengana Capital Limited

Prior to 21 November 2006, Pengana Capital Limited was the appointed Investment Manager of the Trust. Pengana received management fees of $108,982 from the Company (2006: $297,901) in respect of the provision of these services.

During the year, entities associated with Pengana Capital Limited acquired certain assets of the Trust. All transactions between the Trust and entities associated with the former Investment Manager were at arm's length, and at market value on normal commercial terms and conditions.

f) Aurora Funds Management Limited

Aurora Funds Management Limited (Aurora) was the appointed Responsible Entity of the Trust until 29 June 2007, the date on which the Trust was wound up. In accordance with the Trust Constitution, Aurora was entitled to receive fees for the provision of services to the Trust and to be reimbursed for certain expenditure incurred in the administration of the Trust.

Total fees paid to Aurora during the period ended 29 June 2007 were $57,291 (2006: $41,391). During the year ended 30 June 2007 Aurora incurred certain expenses on behalf of the Trust of $56,572 (2006: nil). These costs were reimbursed by the Trust.

Disclosures relating to key management personnel are set out in note 16.

18. Contingent Liabilities and Commitments for Expenditure

Capital Commitments

The directors are not aware of any capital commitments as at the date of this report.

Lease Commitments

MAM has entered into non-cancellable operating leases for its office premises at Levels 1 and 7 at 1 Castlereagh Street Sydney and for office equipment.

	2007 **$'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	
Within one year	513
Later than one year but not later than five years	2,002
	2,515

Contingent Liabilities

The Company has a contingent liability in respect of a performance fee that may be payable at as 30 June 2008. Details are provided in note 17(a) (ii). The performance fee that would be payable as at 30 June 2008, in the event that if the Company's 10 day average share price for the trading period immediately prior to 30 June 2008 was $1.55 (the 10 day average share price for 23 August 2007), is $8.9 million.

19. Segment Information

The Company operates solely from Australia. It operates in one sector, being the provision of investment management services.

20. Events Subsequent to Reporting Date

Seeding of Magellan Global Fund and Magellan Infrastructure Fund

On 3 July 2007, the Company subscribed for $15m and $5m respectively of units in the Magellan Global Fund and Magellan Infrastructure Fund, two new unlisted investment trusts of which MAM is appointed as Responsible Entity and Investment Manager.

Management Services Agreement with NPH Funds Pty Ltd

There is a Management Services Agreement (MSA) between the Company and NPH Funds, details of which are set out in note 17 a). NPH Funds is 40% owned by a company controlled by Hamish Douglass, the Chairman of Magellan, and 60% owned by New Privateer Holdings Limited (NPH) an ASX listed company in which Chris Mackay, the Deputy Chairman of Magellan, has a 36% shareholding (approximately 55% on a fully diluted basis).

Since the end of the financial year, Hamish Douglass and Chris Mackay have advised the Boards of the Company and NPH that they do not wish to participate in any possible performance fees that may arise under the management services agreement between the Company and NPH Funds. Messrs Douglass and Mackay will examine whether, if they do not participate in any possible performance fees that may become payable, the arrangements, between the Company, NPH Funds, NPH and themselves can be restructured to achieve an outcome that benefits the Company's future development.

21. Auditor's Remuneration

	Consolidated		Parent	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Amounts received or due and receivable by Ernst & Young Australia for:				
- an audit of the financial report for the entity and any other entity in the consolidated group	112	72	77	45
- non audit services in relation to the entity and any other entity in the consolidated group	9	-	-	-
	121	**72**	**77**	**45**

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2007

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, notes and the additional disclosures included in the Directors Report designated as audited, of the company and of the consolidated entity are in with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and *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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2007.

On behalf of the Board

Hamish Douglass

Chairman

Sydney

30 August 2007

ERNST & YOUNG

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Sydney NSW 2000
Australia

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Independent auditor's report to the members of Magellan Financial Group Limited

We have audited the accompanying financial report of Magellan Financial Group Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 7 to 10 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 2(b), the directors also state that the financial report complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

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 and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

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

ERNST & YOUNG

Independence
In conducting our audit we have met 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. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

Auditor's Opinion
In our opinion:

1. the financial report of Magellan Financial Group Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the financial position of Magellan Financial Group Limited and the consolidated entity at 30 June 2007 and of their 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*.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

3. the remuneration disclosures that are contained on pages 7 to 10 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Sydney
30 August 2007

SHAREHOLDER INFORMATION

AS AT 23 AUGUST 2007

Distribution of Shareholders

The distribution of shareholders of the Comapny as at 23 August 2007 is presented below:

Distribution Schedule of Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	1,187	792,130	0.74
1,001-5,000	1,603	4,085,668	3.81
5,001-10,000	615	4,436,259	4.13
10,001-100,000	615	15,711,147	14.64
100,001 and over	61	82,329,766	76.68
Total	**4,081**	**107,354,970**	**100.00**
Number of holders with less than a marketable parcel	84	12,201	0.01

Twenty Largest Shareholders

The distribution of shareholders of the Comapny as at 23 August 2007 is presented below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
Cavalane Holdings Pty Ltd	18,006,006	16.77
NPH Funds Pty Ltd	12,606,006	11.74
New Privateer Holdings Limited	6,696,651	6.24
UBS Wealth Management Australia Nominees Pty Ltd	6,530,497	6.08
Nota Bene Investments Pty Ltd	6,006,006	5.59
Cogent Nominees Pty Ltd	5,799,317	5.40
HSBC Custody Nominees (Australia) Limited	2,964,413	2.76
Doulev Pty Ltd	2,286,006	2.13
Pakham Investments Pty Ltd	2,196,513	2.05
Mr David Doyle	1,500,000	1.40
Innisfallen Investments Pty Ltd	1,356,662	1.26
Forbar Custodians Limited	1,344,465	1.25
Christopher John Mackay	1,206,026	1.12
DBR Corporation Pty Ltd	1,032,673	0.96
Merrill Lynch (Australia) Nominees Pty Ltd	956,650	0.89
Perpetual Trustees Consolidated Limited	798,795	0.74
Darian Investments Pty Limited	724,006	0.67
Cairnton Holdings Limited	666,667	0.62
Reidco Pty Ltd	607,966	0.57
Emmanuel Capital Pty Ltd	550,000	0.51
Total shares held by the twently largest shareholders	**78,835,325**	**68.78**
Total shares in issue	**107,354,970**	**100.00**

Substantial Shareholders

The names of the substantial shareholders of the Company and their holdings as at 23 August 2007 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares in Issue
Chris Mackay, Hamish Douglass and Associates *	20,741,363	19.32
Cavalane Holdings Pty Ltd (an entity controlled by Consolidated Press Holdings Ltd)	18,006,006	16.77

* Mr Douglass and Mr Mackay are directors of NPH Funds Pty Ltd (NPH Funds). NPH Funds is 40% owned by a company controlled by Hamish Douglass and 60% owned by New Privateer Holdings Limited (NPH) a company of which Chris Mackay is a director and has a 36% shareholding (approximately 55% on a fully diluted basis). NPH Funds holds 12,606,006 shares and NPH holds 6,696,651 shares in the Company.

Voting Rights

Subject to the Company Constitution:

a) at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;

b) on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and

c) on a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

Stock Exchange Listing

The Company's ASX code is "MFG" for its shares and "MFGOA" for its listed options.

CORPORATE DIRECTORY

Directors

Naomi Milgrom

Paul Lewis

Brett Cairns

Hamish Douglass

Chris Mackay

Company Secretary

David Simpson

Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

Registered Office

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MAGELLAN
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