ANNUAL
REPORT

PENGANA
CAPITAL

PENGANA CAPITAL GROUP LIMITED

ANNUAL REPORT

30 JUNE
2018

**PENGANA CAPITAL
HEAD OFFICE**

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PENGANA.COM

PENGANA IS A LEADING PROVIDER OF PREMIUM PRODUCTS THAT ARE BENCHMARK UNAWARE AND ACTIVELY MANAGED.

CURRENTLY, PENGANA HAS CIRCA $3.5 BILLION OF FUNDS UNDER MANAGEMENT ACROSS BOTH GLOBAL AND AUSTRALIAN INVESTMENT STRATEGIES.

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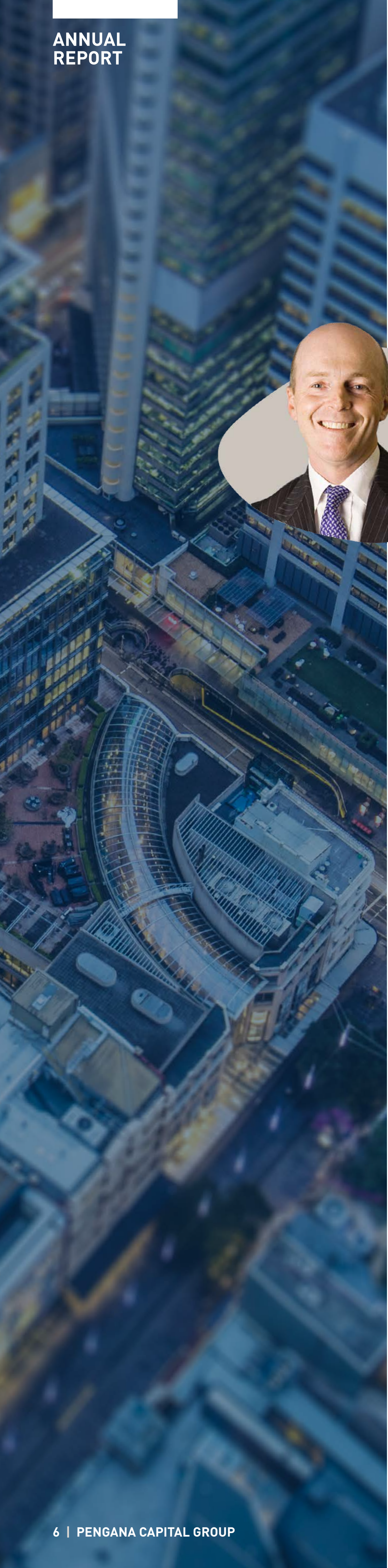
CORPORATE DIRECTORY

DIRECTORS

Warwick Negus	Non-Executive Chairman
Russel Pillemer	Managing Director and Chief Executive Officer
Jeremy Dunkel	Non-Executive Director
Kevin Eley	Non-Executive Director
David Groves	Non-Executive Director

COMPANY SECRETARY	Paula Ferrao
REGISTERED OFFICE	Level 12, 167 Macquarie Street Sydney NSW 2000 Tel: +61 2 8524 9900
SHARE REGISTER	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272
AUDITOR	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
STOCK EXCHANGE LISTING	Pengana Capital Group Limited shares are listed on the Australian Securities Exchange (ASX: PCG)
WEBSITE	www.pengana.com
CORPORATE GOVERNANCE STATEMENT	The Corporate governance Statement which is approved at the same time as the Annual Report can be found at www.pengana.com/shareholders/pengana-capital-group/corporate-governance/



LETTER FROM THE CHAIRMAN

DEAR FELLOW PENGANA SHAREHOLDERS,

The 2018 financial year marked the first year of the newly merged Pengana Capital Group Limited (ASX: PCG).

PCG delivered an underlying profit after tax of $12.4 million for the year ending 30 June 2018, representing underlying earnings of 12.19 cents per share. This is derived from the $7.0 million statutory profit after tax, adding back $3.1 million of non-cash amortisation expenses, $2.1 million of interest on the off balance sheet employee Loan Funded Share Plan and $0.2 million in unrealised investment gains accounted through equity. This enabled the Board to declare a final fully franked dividend of 6.5 cents per share, bringing the total dividends paid for the financial year to 13 cents per share.

During the year, our strategies continued to perform well, and 21% of our gross revenue was derived from performance fees. Although this is lower than our 4-year average, it is not unexpected that our primary focus of “generating superior long-term returns” with benchmark unaware mandates will deliver somewhat variable short-term relative returns. We are proud of the proven long-term performance track record of each of our key strategies, with all strategies outperforming their benchmarks since inception.

We maintained a focus on our cost base, enabling us to deliver the merger cost synergies set out in the Explanatory Memorandum of 27 April 2017, while also investing in our sales and distribution capability by making key hires in New South Wales and Victoria.

With no debt and $19 million of net liquid assets in excess of our regulatory requirements of $10 million we remain focused on continuing to utilise our strong balance sheet in a highly disciplined way. Pengana's unique operating model enables horizontal growth prospects with its robust and scalable infrastructure and strong distribution capabilities and in 2019 we expect to further leverage our current infrastructure.

Creating value for both our shareholders and the investors in our funds only occurs because we have created a team of exceptional people and I would like to thank my fellow board members, fund manager partners and our staff for their dedication, passion and commitment to excellence.

Finally, I would like to thank our shareholders for their continued support and I look forward to meeting many of you at the PCG Annual General Meeting. Details will be sent to you separately in the Notice of Meeting.

Yours sincerely,

Warwick Negus
Chairman

CEO'S REPORT

DEAR FELLOW PENGANA SHAREHOLDER

The 2018 financial year was significant for Pengana Capital Group Limited (ASX: PCG). We successfully completed the integration of the Hunter Hall funds, captured the merger cost synergies set out in the Explanatory Memorandum of 27 April 2017 and have grown funds under management ('FUM') from $3,127 million to $3,519 million.

We believe that we are building a strong platform for further growth, and that our success is primarily attributed to our unique funds management business model that provides significant competitive advantages and proven ability to deliver long-term returns.

There are a few factors that we believe are key to our continued growth:

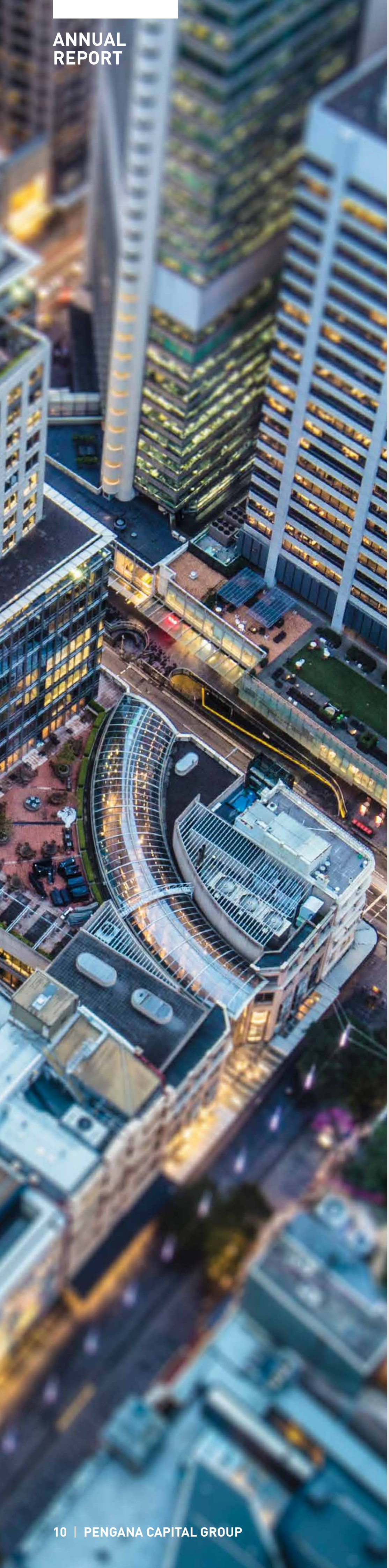
- Our centralised corporate support structure is highly scalable, giving us the ability to grow horizontally (i.e. by adding new teams and strategies), as well as being highly disciplined when it comes to assessing each strategy's capacity constraints.
- Our strong balance sheet and access to capital allows us to take advantage of strategic acquisition opportunities.
- We spend substantial time nurturing our culture as we believe that a great workplace culture has an inevitable positive impact on the happiness, engagement and productivity of our employees. This gives us the ability to attract and retain the right people to deliver our future success.
- We have strong alignment between staff who own approximately 34% of the Company, many of whom have a material proportion of their wealth invested in PCG.
- Our relationship with our largest shareholder, Washington H. Soul Pattinson, whose support permitted the successful completion of the Hunter Hall transaction.
- And finally, our shareholders and investors, many of who have placed their trust and wealth with us and who are often investors across a number of our funds.

FINANCIAL RESULTS

Pengana generated an underlying net profit after tax of $12.4 million which represents 12.19 cents per share.

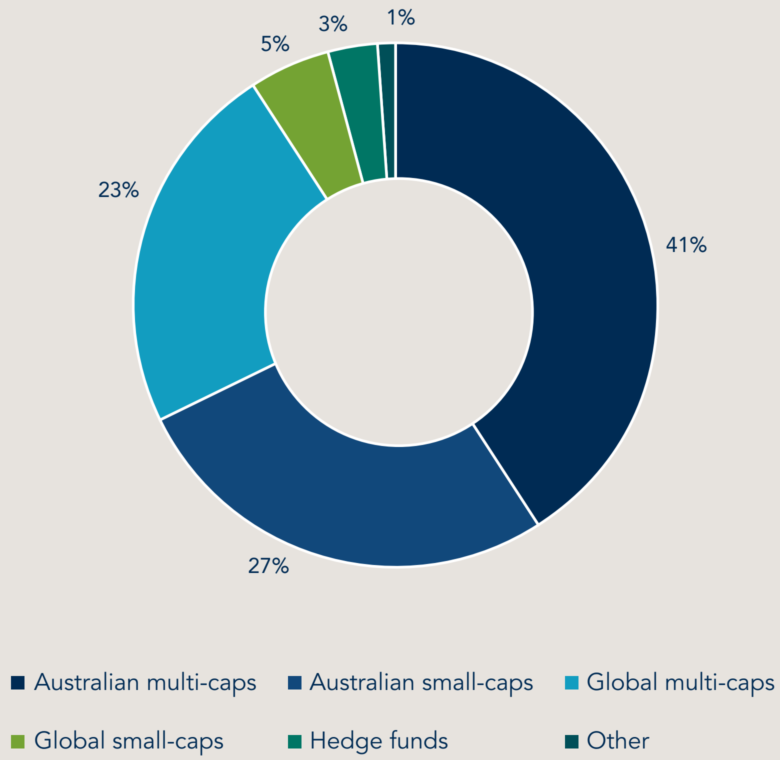
30 June 2018[1]	**($'000)**
Management fee revenue	38,450
Performance fee revenue	11,580
Operating expenses	(19,440)
Team profit share	(18,750)
Operating EBITDA	**11,840**
Other income	1,921
Amortisation	(3,140)
Other non-operating expenses	(560)
Profit before tax	**10,061**
Income tax expense	(3,081)
Statutory profit after tax attributable to Pengana shareholders[2]	**6,980**
Basic earnings per share on statutory profit – cents per share[3]	8.86
Add back:[4]	
Amortisation	3,140
Unrealised investment gains	170
Interest on Loan Funded Share Plan	2,110
Underlying profit	**12,400**
Basic earnings per share on underlying profit – cents per share[5]	12.19

1. Source: Pengana Management Accounts
2. As per Pengana Capital Group Limited 30 June 2018 Financial Statements
3. Calculated on 78,623,370 shares (i.e. excluding 22,853,722 treasury shares)
4. Source: Pengana Management Accounts
5. Calculated on 101,477,092 shares (i.e. including 22,853,722 treasury shares)



CEO'S REPORT (CONTINUED)

Growth in FUM, through investment performance and fund inflows, is the key metric that drives the long-term profitability of our Company. Our FUM increased from $3,127 million to $3,519 million in the year to 30 June 2018, with investment performance of $378 million and net inflows of $189 million comfortably offsetting distributions of $175 million paid in the period.



Whilst the majority of our FUM is currently in Australian focused funds, over time we expect our international funds to grow to become the dominant segment of our business.

This result generated $50 million in gross management and performance fee revenue, of which $19 million was shared with our fund manager partners.

We have a highly scalable infrastructure and this capability was evidenced by the seamless integration of the Hunter Hall business, which included over $6 million in cost synergies. We are well placed to grow FUM and fees at a much faster rate than the growth in expenses, allowing us to seize strategic opportunities without disrupting the day to day operations of our existing funds. At 30 June 2018 our annualised management fee was 1.15%, having remained steady over the last 4 years. Total fee margin was 1.49% which is below our historical 4-year average of 2.15%. It is important to note that performance fees will fluctuate, especially over relatively short periods of time. However, over the longer term, we expect a reversion to the mean as demonstrated by the current performance of our two largest funds.

PENGANA CAPITAL

With circa $1.4 billion under management, the Australian Equities Fund was the biggest driver of management and performance fee revenues. The majority of our funds delivered solid absolute performance, building on our excellent long-term performance track record of each of our key strategies:

Fund	Strategy	Benchmark	Gross Performance Since Inception	Gross Outperformance of Benchmark Since Inception
Pengana Australian Equities Fund [6]	Australian Multi-caps	Absolute	13.3%	13.3%
Pengana Emerging Companies Fund [7]	Australian Small-caps	S&P/ASX Small Ords Acc.	18.0%	12.8%
Pengana International Fund [8]	Global Multi-caps	N/A	11.8%	11.8%
Pengana International Equities Ltd (LIC) [9]	Global Multi-caps	MSCI World	10.2%	3.0%
Pengana PanAgora Absolute Return Global Equities Fund [10]	Global Market Neutral	RBA Cash Rate	10.4%	7.7%
Pengana Global Small Companies Fund [11]	Global Small-caps	MSCI ACWI SMID	14.4%	5.1%
Pengana Absolute Return Asia Pacific Fund [12]	Absolute Return Asia	RBA Cash Rate	6.3%	3.6%
Pengana High Conviction Equities Fund [13]	High Conviction	RBA Cash Rate + 3%	49.0%	44.2%
Pengana WHEB Sustainable Impact Fund [14]	Global Impact Investing	N/A	7.2%	7.2%

The various funds run by our International Equities team saw an improvement in research house ratings early in the calendar year, which, combined with continued performance, should attract increased support from platforms and key financial advisory groups.

The Global Small Companies Fund and the WHEB Sustainable Impact Fund recorded impressive returns over the period and experienced strong inflows, albeit the WHEB Sustainable Impact Fund coming from a lower base.

Finally, shareholders of our listed investment company Pengana International Equities Limited (ASX: PIA) were granted a bonus one-for-one option on 12 December 2017 and voted to reduce its management fee from 1.5% p.a. to 1.2% p.a. in exchange for the one-off re-setting of its performance fee benchmark to nil, effective 1 December 2017.

6. Australian Equity Fund: benchmark shown is the S&P/ASX All Ords Index; performance fee benchmark is the RBA cash rate
7. Emerging Companies Fund: benchmark is the S&P/ASX Small Ordinaries Index
8. International Fund: benchmark is the MSCI All Country World Net Unhedged in AUD
9. International Equities Limited: benchmark is the MSCI World Total Return Index, Net Dividends Reinvested, in A$
10. Pengana PanAgora Absolute Return Global Equities: equity market benchmark is na as this is a market neutral strategy; performance fee benchmark is the RBA cash rate. From December 2015, these performance figures are those of the Fund's class A units. Between September 2010 and November 2015, AUD performance has been simulated by Pengana from the actual USD Composite gross strategy returns (prior to April 2013 using the Monthly Liquidity Composite; thereafter using the Daily Liquidity Composite) using 3 month rolling forwards to hedge movements in the AUDUSD spot rate. The effect of fees form part of this simulation. The Composite is comprised of all discretionary institutional accounts managed by PanAgora in this investment style
11. Global Small Companies Fund: benchmark is the MSCI All Country World SMID Cap Net Unhedged in AUD
12. Absolute Return Asia Pacific Fund: equity market benchmark is na; performance fee benchmark is the RBA cash rate. These performance figures show the returns of the Absolute Return Asia Pacific Fund from inception on 1 September 2010 to the current date and, for the period prior to 1 September 2010, the since inception returns for the Australian dollar denominated shares issued by the Pengana Asia Special Events (Offshore) Fund ("Offshore Fund") adjusted to reflect the different fees which apply to the Fund. The strategy inception date is 1 October 2008. The Fund is fully invested into the Offshore Fund.
13. High Conviction Fund: benchmark shown is the S&P/ASX All Ordinaries Index; performance fee benchmark is the RBA Cash Rate + 3% p.a.
14. WHEB Sustainable Impact Fund: benchmark is the MSCI World Net Unhedged in AUD. The strategy's AUD performance has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are nulled. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical

BALANCE SHEET MANAGEMENT

At 30 June 2018, our Underlying Net Tangible Assets[15] were $53 million, or 51 cents per share. Pengana has no borrowings and at 30 June 2018, had $19 million of net liquid assets in excess of our regulatory requirements of $10 million. The management of our balance sheet is critically important to our business and the returns we deliver shareholders in the long term, as it allows us to take advantage of strategic opportunities as they arise.

Pengana Capital Group Balance Sheet 30 June 2018[16]	**($'000)**
Cash net of $5m AFSL cash requirements	11,070
Current receivables	5,690
Current liabilities	(9,472)
Net working capital	**7,288**
Investments net of $5m AFSL liquid asset requirements	**12,118**
AFSL capital requirements	10,000
Loans (on and off-balance sheet)	28,786
Other assets	1,770
Other non-current liabilities	(7,246)
Total non-current assets and liabilities	**45,428**
Net Tangible Assets[17]	**52,716**
Less: Off balance sheet Loan Funded Share Plan	(27,530)
Add: Intangibles	64,542
Net Assets as per 30 June 2018 Financial Statements[18]	**89,728**

Today the Board declared a fully franked dividend of 6.5 cents per share. The record date for the dividend is Friday, 14 September 2018 and the dividend will be paid on Friday, 28 September 2018. This brings the total fully franked dividends declared for the 2018 financial year to 13 cents per share.

15. Net Assets as per the 2018 Financial Statements of $90 million, adding balance sheet employee loans of $28 million and subtracting intangibles of $65 million, calculated on 101,589,016 shares (i.e. including 22,853,722 treasury shares)
16. Source: Pengana Management Accounts
17. Source: Pengana Management Accounts
18. As per Pengana Capital Group Limited 30 June 2018 Financial Statements

OUTLOOK

We are continuously looking to broaden and strengthen our range of strategies. In the last few months we have made a strategic investment, taking a minority stake in boutique credit fund manager, Global Credit Investments Pty Ltd ('GCI').

In the next 12 months, our challenge will be to drive increased growth in our International Equities strategies by leveraging PCG's highly developed infrastructure and distribution capabilities. We will also remain focused on our other best-in-class strategies, and the solid support from our clients and advisors. And, finally, we will continue to seek to utilise our balance sheet to develop exciting new investment opportunities for the Australian retail market and further drive shareholder value.

As we indicated previously, a key focus of Pengana has been on exploring opportunities in the listed investment space. Over the last year, we have made solid progress in this regard and plan to launch a new listed investment trust that will invest in the alternative assets segments by way of a joint venture type arrangement with a leading offshore alternative asset management firm. We expect to announce details about this exciting new offering over the next several weeks.

We will once again be conducting a series of roadshows in the coming months and I encourage you contact us (via our website or telephone) and register for our updates.

Once again, thank you for continued support. I look forward to meeting many of you in the upcoming months,

Russel Pillemer
Chief Executive Officer

DIRECTORS' REPORT 30 JUNE 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Pengana Capital Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

DIRECTORS

The following persons were directors of Pengana Capital Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Warwick Negus – Chairman	
Russel Pillemer	
Jeremy Dunkel	
Kevin Eley	
David Groves	
Robert Barry	Resigned on 31 October 2017

PRINCIPAL ACTIVITIES

The principal activity of the group is funds management with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand, and offshore investors.

DIVIDENDS

Dividends paid during the financial year were as follows:

	Consolidated	
	2018 $'000	2017 $'000
On 30 August 2017, fully franked final dividend of 4.5 cents per ordinary share was declared for the year ended 30 June 2017 and paid on 28 September 2017 to shareholders registered on 14 September 2017 (2017: $10.74 per Pengana Holdings Pty Ltd ordinary share paid on 18 October 2016 prior to the reverse acquisition).	3,538	6,000
On 27 February 2018, fully franked interim dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 19 March 2018 to shareholders registered on 5 March 2018.	5,111	–
	8,649	6,000

On 28 August 2018, fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 to be paid on 28 September 2018 to shareholders registered on 14 September 2018.

REVIEW OF OPERATIONS

The profit for the group after providing for income tax and non-controlling interest amounted to $6,980,000 (30 June 2017: loss of $2,814,000).

Please refer to the CEO's Report for further information on the current year results and future outlook.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Refer to the CEO's Report for information on likely developments and further outlook.

ENVIRONMENTAL REGULATION

The group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Name:	Warwick Negus
Title:	Non-Executive Chairman
Experience and expertise:	Warwick Negus has more than 30 years' experience in the finance industry across Asia, Europe and Australia. His previous executive roles include the Chief Executive Officer ('CEO') of Colonial First State Global Asset Management, co-founder and CEO of 452 Capital, and a Managing Director of Goldman Sachs in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia.
Other current directorships:	Bank of Queensland Limited (ASX: BOQ); URB Investments Limited (ASX: URB); Virgin Australia Holdings Limited (ASX: VAH) and Washington H. Soul Pattinson and Company Limited (ASX: SOL)
Former directorships (last 3 years):	None.
Special responsibilities:	Member of the Audit and Risk Committee.
Interests in shares:	3,425,000 ordinary shares.

Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Russel Pillemer co-founded Pengana in 2003 together with the Hon. Malcolm Turnbull MP. He has been Pengana's CEO since inception. Prior to founding Pengana, Russel Pillemer worked in the Investment Banking Division of Goldman Sachs in New York where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group. Russel Pillemer was previously Chairman of Centric Wealth Group and a Principal of Turnbull Pillemer Capital.
Other current directorships:	Pengana International Equities Limited (ASX: PIA)
Former directorships (last 3 years):	None.
Special responsibilities:	None.
Interests in shares:	10,350,081 ordinary shares and 15,872,528 ordinary shares (treasury shares held under the loan share plan).

DIRECTORS' REPORT – 30 JUNE 2018 (CONTINUED)

Name:	**Jeremy Dunkel**
Title:	Non-Executive Director
Experience and expertise:	Jeremy Dunkel is a director of Taurus Capital, a family office investment consultancy specialising in philanthropy. His accounting and finance experience includes working for Chemical Bank, Chase Manhattan and Price Waterhouse. He is a director of Education Heritage Foundation, and the Moriah College Foundation, as well as the Chair of Y2i.
Other current directorships:	None.
Former directorships (last 3 years):	None.
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee.
Interests in shares:	1,803,150 ordinary shares.

Name:	**Kevin Eley**
Title:	Non-Executive Director
Experience and expertise:	Kevin Eley has over 31 years' experience in management and investment in a broad range of industries including, manufacturing, mining, retail, finance and investment. Kevin Eley has worked for a major international accounting firm, two investment banks and was CEO of HGL Limited.
Other current directorships:	Milton Corporation Limited (ASX: MLT); EQT Holdings Ltd (ASX: EQT) and HGL Limited (ASX: HNG).
Former directorships (last 3 years):	Po Valley Energy Limited (ASX: PVE).
Special responsibilities:	Member of the Nomination and Remuneration Committee.
Interests in shares:	200,000 ordinary shares.

Name:	**David Groves**
Title:	Non-Executive Director
Experience and expertise:	David Groves has over 25 years' experience as a company director. Mr Groves is Chairman of Pyrolyx AG and Tasman Sea Salt Pty Ltd and is a non-executive director of Pengana International Equities Limited and of Pipers Brook Vineyard Pty Ltd. He is a former director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. Mr Groves is an advisory board member of the Australian Rugby Foundation and a member of the Council of Wollongong University. Mr Groves is a member of the Australian Institute of Chartered Accountants and a fellow of the Australian Institute of Company Directors.
Other current directorships:	Pengana International Equities Limited (ASX: PIA) and Pyrolyx AG (ASX: PLX).
Former directorships (last 3 years):	None.
Special responsibilities:	Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee
Interests in shares:	393,667 ordinary shares.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

COMPANY SECRETARY

Ms Paula Ferrao has held the role of Company Secretary since 4 January 2017. Paula Ferrao is an executive of the group and was previously interim CEO of Hunter Hall International Limited, having previously held the position of Chief Financial Officer since 2010. Paula Ferrao has 19 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of funds operations.

MEETINGS OF DIRECTORS

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration		Audit and Risk Committee	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**
Warwick Negus	9	9	–	–	4	4
Russel Pillemer	9	9	–	–	–	–
Jeremy Dunkel	9	9	2	2	4	4
Kevin Eley	7	9	2	2	–	–
David Groves	8	9	2	2	4	4
Robert Barry	1	3	–	–	–	–

	Board sub-committee	
	Attended	**Held**
Warwick Negus	1	1
Russel Pillemer	2	2
Jeremy Dunkel	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Principles used to determine the nature and amount of remuneration

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee ('NRC') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-Executive Directors' remuneration

Non-executive directors each have a letter of appointment with the company. Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the NRC. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 28 November 2017, where the shareholders approved a maximum annual aggregate remuneration of $750,000.

Executive remuneration

The group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- fixed remuneration, including superannuation and long service leave; and
- share-based payments.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, will be reviewed annually by the NRC based on individual and business unit performance, the overall performance of the group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the group and provides additional value to the executive.

Short Term Incentives ('STI') are payable to KMP and other executives at the discretion of the Board and are not directly linked to the group profitability, however the profitability of the group is taken into consideration when determining bonuses. No STI was paid to KMP and other executives for the year ended 30 June 2018.

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Long-Term incentives ('LTI')

The long-term incentives ('LTI') include long service leave and share-based payments.

The group operates a Loan Share Plan ('LSP') which is outlined below in the section 'share-based compensation'.

A condition of the merger in the prior period was a voluntary escrow of equity owned by KMP and other executives. The escrow periods range from one to six years.

Use of remuneration consultants

During the financial year ended 30 June 2018, the group did not engage any remuneration consultants.

Voting and comments made at the company's 2017 Annual General Meeting ('AGM')

At the 2017 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of KMP of the group are set out in this section.

The KMP of the group consisted of the Directors of Pengana Capital Group Limited and the following person:

- Katrina Glendinning – Chief Financial Officer

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2018	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
Warwick Negus	127,854	–	–	12,146	–	–	140,000
Robert Barry*	24,353	–	–	2,314	–	–	26,667
Jeremy Dunkel	82,192	–	–	7,808	–	–	90,000
Kevin Eley	73,060	–	–	6,940	–	–	80,000
David Groves	91,325	–	–	8,675	–	–	100,000
Executive Directors:							
Russel Pillemer	583,530	–	–	20,049	25,560	–	629,139
Other KMP:							
Katrina Glendinning	344,124	–	–	20,049	12,013	22,891	399,077
	1,326,438	**–**	**–**	**77,981**	**37,573**	**22,891**	**1,464,883**

* KMP of the group until 31 October 2017

DIRECTORS' REPORT – 30 JUNE 2018 (CONTINUED)
REMUNERATION REPORT (AUDITED) (CONTINUED)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2017	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
Warwick Negus*	10,655	–	–	1,012	–	–	11,667
Robert Barry	33,447	–	–	28,472	–	–	61,919
Jeremy Dunkel	6,849	–	–	651	–	–	7,500
Kevin Eley*	6,088	–	–	578	–	–	6,666
David Groves*	7,610	–	–	723	–	–	8,333
Executive Directors:							
Russel Pillemer	583,530	–	–	19,616	9,721	4,906,218	5,519,085
Other KMP:							
Katrina Glendinning	333,530	–	–	19,616	(3,421)	7,463	357,188
	981,709	**–**	**–**	**70,668**	**6,300**	**4,913,681**	**5,972,358**

* KMP of the group from 1 June 2017

Non-Executive Directors' remuneration is 100% fixed. The share-based payment incentive relates to the LSP.

	Fixed remuneration		LTI	
Name	**2018**	**2017**	**2018**	**2017**
Executive Directors:				
Russel Pillemer	100%	11%	–	89%
Other KMP:				
Katrina Glendinning	94%	98%	6%	2%

LTI components of Russel Pillemer is skewed for the year ended 30 June 2017 due to the share-based payment expense resulting from loan funded share issued to Russel Pillemer under the LSP.

PENGANA
CAPITAL

SERVICE AGREEMENTS

Remuneration and other terms of employment for group executives are formalised in employment agreements. Details of the employment agreements with KMP are as follows:

Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Term of agreement:	Ongoing - no fixed minimum term
Details:	Total fixed salary of $614,615 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Russel Pillemer participates in the LSP. Either party may terminate the employment agreement by providing six months' notice.

Name:	Katrina Glendinning
Title:	Chief Financial Officer
Term of agreement:	Ongoing – no fixed minimum term
Details:	Salary: Total fixed salary of $364,656 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Katrina Glendinning participates in the LSP. Either party may terminate the employment agreement by providing six months' notice.

KMP have no entitlement to termination payments in the event of removal for misconduct.

SHARE-BASED COMPENSATION

Issue of shares under the Loan Share Plan ('LSP')

The group operates a LSP whereby limited recourse loans were provided to employees and fund managers to acquire shares in the company. As the share acquisitions were funded by limited recourse loans they are treated for accounting purposes similar to grants of share options and accounted for as equity-settled share-based payments. The shares issued under the LSP (referred to as 'treasury shares') are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period. The impact of this accounting treatment is a reduction in net assets equivalent to the value of loans outstanding under the LSP. As at 30 June 2018 loans outstanding under the LSP and not recorded as a receivable on statement of financial position totalled $27,528,000 (2017: $27,928,000). Treasury shares have a service vesting period of 5 years, except those granted to Russel Pillemer all of which vested on the date they were granted.

As at 30 June 2018 outstanding loans to Russel Pillemer and Katrina Glendinning respectively are $18,884,000 (2017: $19,342,000) and $524,000 (2017: $520,000).

The terms and conditions of each grant of shares under the LSP affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Grant date	Name: Number of loan shares	Expiry date	Exercise price	Fair value per loan shares at grant date
03/03/2017	Katrina Glendinning: 422,899	01/03/2024	$1.49	$0.271

The number of shares under the LSP granted to and vested by directors and other KMP as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of loan shares granted during the year 2018	Number of loan shares granted during the year 2017	Number of loan shares vested during the year 2018	Number of loan shares vested during the year 2017
Russel Pillemer	–	15,872,528	–	15,872,528
Katrina Glendinning	–	422,899	–	–

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2017.

ADDITIONAL DISCLOSURES RELATING TO KMP

Shareholding

The number of shares in the company, excluding shares under the LSP, held during the financial year by each director and other members of KMP of the group, including their personally related parties, is set out below:

	Balance at the start of the year	Additions	Disposal/other	Shares issued on reverse acquisition	Balance at the end of the year
Ordinary shares:					
Warwick Negus	3,400,000	25,000	–	–	3,425,000
Jeremy Dunkel	1,803,150	–	–	–	1,803,150
Kevin Eley	200,000	–	–	–	200,000
David Groves	343,473	50,194	–	–	393,667
Russel Pillemer	10,350,081	–	–	–	10,350,081
Katrina Glendinning	2,186,620	–	–	–	2,186,620
	18,283,324	**75,194**	**–**	**–**	**18,358,518**

Shares under the Loan Share Plan

The number of shares under the LSP in the company held during the financial year by each director and other members of KMP of the group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Shares under the Loan Share Plan:					
Russel Pillemer	15,872,528	–	–	–	15,872,528
Katrina Glendinning	422,899	–	–	–	422,899
	16,295,427	**–**	**–**	**–**	**16,295,427**

This concludes the remuneration report, which has been audited.

SHARES UNDER THE LOAN SHARE PLAN AND SHARES UNDER OPTIONS

Shares under the LSP in Pengana Capital Group Limited and reported as treasury shares at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number of loan shares
01/03/2017	28/02/2024	$1.49	5,149,796
01/03/2017	28/02/2024	$1.20	10,722,732
03/03/2017	01/03/2024	$1.49	6,981,194
			22,853,722

Initial loans attached to the treasury shares total $27,220,000 and are reported as a reduction in issued capital, due to the operability of the LSP being accounted for as share-based payments, similar in nature to options.

There were no unissued ordinary shares of Pengana Capital Group Limited under option outstanding at the date of this report.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Pengana Capital Group Limited issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year the group paid premiums in respect of contracts to insure the directors and executives of the company and group. The contract of insurance prohibits disclosure of the nature of the risks insured and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

NON-AUDIT SERVICES

There were no non-audit services provided during the financial year by the auditor.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF GRANT THORNTON AUDIT PTY LTD

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

AUDITOR

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors,

Russel Pillemer
Chief Executive Officer

28 August 2018
Sydney

AUDITOR'S INDEPENDENCE DECLARATION

PENGANA
CAPITAL

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Auditor's Independence Declaration

To the Directors of Pengana Capital Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Pengana Capital Group Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 28 August 2018

STATEMENT OF PROFIT OR LOSS

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue			
Management fees		39,621	24,872
Performance fees		11,696	11,946
Other fee revenue		–	76
Total revenue		**51,317**	**36,894**
Share of profits of associates accounted for using the equity method		311	859
Other income and gains	4	2,565	7,348
Total revenue and income		**54,193**	**45,101**
Expenses			
Human resources expenses		(12,343)	(14,725)
Fund manager profit share expense		(18,634)	(14,729)
Fund operating expenses		(3,761)	(3,128)
Distribution expenses		(195)	(558)
Distributions paid to unitholders		–	(4,230)
Occupancy expenses		(1,021)	(1,146)
Net change in assets attributable to unitholders		(281)	–
Technology and communications expenses		(972)	(1,013)
Marketing and investment research expenses		(1,397)	(1,052)
Insurance expenses		(502)	(224)
Professional, registry and listing related expenses		(968)	(769)
Reverse acquisition and restructuring costs	5	(633)	(4,504)
Depreciation and amortisation expenses	5	(2,559)	(388)
Other operating expenses		(756)	(310)
Total expenses		**(44,022)**	**(46,776)**
Profit/(loss) before income tax expense		**10,171**	**(1,675)**
Income tax expense	6	(3,081)	(1,019)
Profit/(loss) after income tax expense for the year		**7,090**	**(2,694)**
Profit/(loss) for the year is attributable to:			
Non-controlling interest		110	120
Owners of Pengana Capital Group Limited		**6,980**	**(2,814)**
		7,090	**(2,694)**
		Cents	**Cents**
Basic earnings per share	36	8.88	(4.39)
Diluted earnings per share	36	7.73	(4.39)

The above statement of profit or loss should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

PENGANA CAPITAL

	Consolidated	
	2018 **$'000**	**2017** **$'000**
Profit/(loss) after income tax expense for the year	7,090	(2,694)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gain on the revaluation of available-for-sale financial assets, net of tax	168	3
Other comprehensive income for the year, net of tax	168	3
Total comprehensive income for the year	**7,258**	**(2,691)**
Total comprehensive income for the year is attributable to:		
Non-controlling interest	110	120
Owners of Pengana Capital Group Limited	7,148	(2,811)
	7,258	**(2,691)**

The above statement of profit or loss should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

		Consolidated	
	Note	2018 $'000	2017[a] $'000
Assets			
Current Assets			
Cash and cash equivalents	7	16,070	20,167
Trade and other receivables	8	5,206	4,940
Investments in financial assets at fair value through profit or loss	9	–	26,768
Income tax refund due	6	759	905
Other current assets	10	782	802
Total current assets		**22,817**	**53,582**
Non-current assets			
Other receivables	11	1,732	2,258
Investments accounted using the equity method	12	7,481	3,712
Investments in available-for-sale financial assets	13	9,637	7,196
Property, plant and equipment	14	315	362
Intangibles	15	64,541	66,947
Prepayments		197	–
Total non-current assets		**83,903**	**80,475**
Total assets		**106,720**	**134,057**
Liabilities			
Current liabilities			
Trade and other payables	16	9,889	16,876
Employee benefits	17	943	511
Net assets attributable to unitholders		–	18,768
Total current liabilities		**10,832**	**36,155**
Non-current liabilities			
Deferred tax	6	6,077	7,211
Employee benefits		78	569
Other		5	5
Total non-current liabilities		**6,160**	**7,785**
Total liabilities		**16,992**	**43,940**
Net assets		**89,728**	**90,117**
Equity			
Contributed equity	18	87,914	87,161
Reserves	19	29,445	28,899
Accumulated losses		(27,664)	(25,995)
Equity attributable to the owners of Pengana Capital Group Limited		89,695	90,065
Non-controlling interest		33	52
Total equity		**89,728**	**90,117**

Refer to note 29 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

(a) Restated

The above statement of profit or loss should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	25,298	29,867	(23,181)	30	32,014
Profit/(loss) after income tax expense for the year	–	–	(2,814)	120	(2,694)
Other comprehensive income for the year, net of tax	–	3	–	–	3
Total comprehensive income for the year	**–**	**3**	**(2,814)**	**120**	**(2,691)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 18)	89,083	–	–	–	89,083
Treasury shares (note 18)	(27,220)	–	–	–	(27,220)
Share-based payments	–	5,029	–	–	5,029
Dividends paid (note 20)	–	(6,000)	–	(98)	(6,098)
Balance at 30 June 2017	**87,161**	**28,899**	**(25,995)**	**52**	**90,117**

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017	87,161	28,899	(25,995)	52	90,117
Profit/(loss) after income tax expense for the year	–	–	6,980	110	7,090
Other comprehensive income for the year, net of tax	–	168	–	–	168
Total comprehensive income for the year	**–**	**168**	**6,980**	**110**	**7,258**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 18)	753	–	–	–	–
Treasury shares (note 18)	–	–	–	–	753
Share-based payments (note 35)	–	378	–	–	378
Dividends paid (note 20)	–	–	(8,649)	(129)	(8,778)
Balance at 30 June 2018	**87,914**	**29,445**	**(27,664)**	**33**	**89,728**

The above statement of profit or loss should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		55,197	41,579
Payments to suppliers, customers and employees (inclusive of GST)		(49,078)	(40,255)
Dividends received		6,119	1,324
Interest received		225	249
Other revenue		186	94
Interest and other finance costs paid		939	483
Proceeds from the sale of financial instruments held at fair value		21,363	26,778
Purchase of financial instruments held at fair value through profit or loss		(16,790)	(2,245)
Income taxes paid		(4,327)	(1,032)
Net cash from operating activities	**34**	**7,715**	**25,651**
Cash flows from investing activities			
Cash acquired on acquisition of subsidiaries		–	18,836
Cash on disposal of interests in subsidiaries		–	(553)
Payments for property, plant and equipment		(85)	(232)
Redemption of non-controlling interest shares		–	(1,121)
Proceeds from disposal of interests in subsidiaries		7,732	–
Payments for security deposits		–	(5)
Proceeds from security deposits		2	–
Net cash from/(used in) investing activities		**7,649**	**16,925**
Cash flows from financing activities			
Payment made towards issue of loan share plan		–	(18,905)
Payments to unitholders		(11,080)	–
Proceeds from loan repayments		246	436
Dividends paid to company shareholders, net of treasury shares reinvested		(8,542)	(6,000)
Dividends paid to non-controlling interests and unitholders		(129)	(4,249)
Net cash from/(used in) financing activities		**(19,505)**	**(28,718)**
Net increase/(decrease) in cash and cash equivalents		(4,141)	13,858
Cash and cash equivalents at the beginning of the financial year		20,167	6,347
Effects of exchange rate changes on cash and cash equivalents		44	(38)
Cash and cash equivalents at the end of the financial year	**7**	**16,070**	**20,167**

The above statement of profit or loss should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

PENGANA CAPITAL

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

PARENT ENTITY INFORMATION

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 28.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pengana Capital Group Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Pengana Capital Group Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition of Pengana Holdings by Hunter Hall, in the previous year was accounted for by applying the principles of reverse acquisition accounting, and the consolidated financial statements represent a continuation of the financial statements of Pengana Holdings. Refer to 'Business Combinations' accounting policy for a further explanation of the accounting for this transaction.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
PRINCIPLES OF CONSOLIDATION (CONTINUED)

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss, statement of financial position and statement of changes in equity of the group. Losses incurred by the group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Australian dollars, which is Pengana Capital Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefit will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Management fees

Management fees are recognised on an accruals basis based on the portfolio managed, net of any fund manager rebates.

Performance fees

Performance fees are recognised when the right to receive payment has been established. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at the reporting date as they are not able to be estimated or measured reliably and may change significantly.

Dividends and distributions

Dividends and distributions are recognised when received or when the right to receive payment is established.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income

Rent revenue is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

FUND MANAGER PROFIT SHARE EXPENSE

Fund manager profit share expense represents a 'shadow equity' program for fund managers under which the fund managers receive an agreed percentage of the profits of their respective fund and/or strategy ensuring alignment of interests between shareholders, fund managers and fund investors.

INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidated group

Pengana Capital Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation regime on 1 July 2003, which Pengana Holdings Pty Ltd and its wholly-owned Australian subsidiaries joined on 1 June 2017.

The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

The head entity and its wholly owned subsidiaries have a tax funding agreement that ensures the tax payable is met by Pengana Capital Group Ltd. Any difference between the amounts assumed and the amount receivable or payable under the funding agreement is recognized as a contribution to, or distribution from, the parent.

CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. These receivables represent management fees that are accrued daily and paid monthly by the funds. They are usually recoverable within 20 business days.

Collectability of trade receivables are reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

ASSOCIATES

Associates are entities over which the group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or (ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	5 years
Furniture and fittings	5–10 years
Plant and equipment	2–4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset’s useful life or over the shorter of the asset’s useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Acquired relationships

Relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 7 and 13 years.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount and the consideration received is recognised in profit or loss.

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Net assets attributable to unitholders represent the economic interest in the net assets of consolidated subsidiary trusts that are attributable to non-controlling interests. The funds consider their equity to be unitholders' funds. The funds manage their net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability in the statement of financial position.

FINANCE COSTS

Finance costs are expensed in the period in which they are incurred based on the effective interest method.

EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. The group operates a loan share plan that is accounted for as equity-settled share-based payments similar to options.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using Black-Scholes option pricing model that takes into account the exercise price, the term of the option/share under the loan share plan, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option/share under the loan share plan, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

FAIR VALUE MEASUREMENT

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS

Dividends are recognised when declared during the financial year.

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Acquisition of Pengana Holdings Pty Ltd

During the previous financial year, Pengana Holdings Pty Ltd's original shareholders obtained a majority share interest in Hunter Hall International Limited (now known as Pengana Capital Group Limited) after the acquisition transaction. This transaction is accounted by applying the principles of a reverse acquisition accounting in accordance with AASB 3 'Business Combinations'.

The overall accounting effect is in accordance with AASB 3 with the following principles having been applied:

- fair value adjustments arising at acquisition were made to Hunter Hall International Limited's assets and liabilities and not to those of Pengana Holdings Pty Ltd;
- the cost of the acquisition, and amount recognised as issued capital to affect the transaction, is based on the notional amount of shares that Pengana Holdings Pty Ltd would have needed to issue to acquire the same shareholding percentage in Hunter Hall International Limited at the acquisition date;

- retained earnings and other equity balances in the consolidated financial statements at acquisition date are those of Pengana Holdings Pty Ltd;
- The equity structure in the consolidated financial statements (the number and type of equity instruments) represents the continuation of Pengana Holdings Pty Ltd, including the equity instruments issued to effect the acquisition; and
- the results for the comparative financial year ended 30 June 2017 comprise the consolidated results for the year of Pengana Holdings Pty Ltd together with the results of Hunter Hall International Limited from 1 June 2017 to 30 June 2017.

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pengana Capital Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Trade debtors and creditors are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position. All other receivables and payables are stated exclusive of GST recoverable or payable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2018. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair

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value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The group will adopt this standard from 1 July 2018. The adoption of AASB 9 will change the way the group accounts for equity investments however the impact will be immaterial due to the relative size and incidental nature of investing activities.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The group will adopt this standard from 1 July 2018. The adoption of AASB 15 will have no material impact on how the group currently recognises revenue.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. Had the standard been adopted from 1 July 2017, and using the transitional rules available, the group would have recognised a lease liability, being the present value of the lease commitments as disclosed in note 26 discounted using the group's incremental borrowing rate, with a corresponding increase in property, plant and equipment. However, the group will adopt this standard from 1 July 2019 and the actual impact will depend on the operating lease assets held by the group as at 1 July 2019 and the transitional elections made at that time. The impact of its adoption is yet to be assessed by the group.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy

The group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Goodwill

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amount of cash-generating unit has been determined based on fair value less costs of disposal, using external market data.

Unconsolidated structured entities

The group has significant influence over the funds it manages due to its role as responsible entity and investment manager together with direct holdings in the funds. The funds referred to in note 33 are not consolidated by the group, and instead, equity accounted as interests in associates, as the group does not have control or joint control. These investments are managed in accordance with financial risk management practices as set out in note 21.

NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

The main business activities of the group are the provision of funds management services. The Board of Directors and the Managing Director and Chief Executive Officer, are identified as the Chief Operating Decision Makers ('CODM'), and they consider the performance of the main business activities on an aggregated basis to determine the allocation of resources.

Other activities undertaken by the group, including investing activities, are incidental to the main business activities. Based on the internal reports that are used by the CODM the group has one operating segment being the provision of funds management services with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand, and offshore investors globally. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

The information reported to the CODM is on a regular basis.

NOTE 4. OTHER INCOME AND GAINS

	Consolidated	
	2018 $'000	**2017 $'000**
Dividends and distributions	541	16
Interest	182	91
Rental income	277	307
Net change in assets attributable to unitholders	–	6,599
Realised and unrealised gains/(losses) on financial instruments held at fair value through profit or loss	171	244
Realised and unrealised losses on held for trading financial assets	1,047	(15)
Other income	347	106
	2,565	**7,348**

NOTE 5. EXPENSES

	Consolidated	
	2018 $'000	2017 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	36	33
Fixtures and fittings	29	39
Plant and equipment	88	116
Total depreciation	153	188
Amortisation		
Acquired relationships	2,406	200
Total depreciation and amortisation	2,559	388
Net foreign exchange loss		
Net foreign exchange loss	4	57
Rental expense relating to operating leases		
Minimum lease payments	967	938
Amortisation of deferred lease incentives	(12)	155
Total rental expense relating to operating leases	955	1,093
Defined contribution superannuation expense	625	512
Share-based payments expense – included in human resources expenses		
Share-based payments expense	378	5,029
Staff termination payments on termination of Global Resources Fund	–	–
Reverse acquisition and restructuring costs		
Professional fees	–	334
Salaries, redundancies and other employee benefit costs	–	3,381
Onerous leases and write downs	–	402
Other	633	387
Total reverse acquisition and restructuring costs	633	4,504

NOTE 6. INCOME TAX

	Consolidated 2018 $'000	2017 $'000
Income tax expense		
Current tax	3,144	1,329
Deferred tax – origination and reversal of temporary differences	(63)	(310)
Aggregate income tax expense	**3,081**	**1,019**
Deferred tax included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	(63)	(310)
Numerical reconciliation of income tax expense and tax at the statutory rate		
profit/(loss) before income tax expense	10,171	(1,675)
Tax at the statutory tax rate of 30%	3,051	(503)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	(42)	(370)
Permanent differences	(675)	165
Share-based payment expense	113	1,509
Assessable income not in profit or loss	634	218
Income tax expense	**3,081**	**1,019**
Amounts charged/(credited) directly to equity		
Deferred tax assets	72	(1)

The tax benefit for capital losses have been fully recognised during the financial year ended 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 6. INCOME TAX (CONTINUED)

	Consolidated	
	2018 $'000	2017 $'000
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Amounts recognised:		
Property, plant and equipment	73	82
Provision	429	1,559
Unrealised losses/(gains)	595	(1)
Acquired relationships	(7,174)	(8,851)
Deferred tax asset/(liability)	**(6,077)**	**(7,211)**
Movements:		
Opening balance	(7,211)	813
Credited to profit or loss	63	310
Credited/(charged) to equity	(72)	1
Additions through business combinations (note 29)	–	(8,335)
Tax effects on intangibles	1,143	–
Closing balance	**(6,077)**	**(7,211)**
Income tax refund due		
Income tax refund due	**759**	**905**

NOTE 7. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash on hand and at bank	12,406	14,951
Cash on deposit	3,664	5,216
	16,070	**20,167**

NOTE 8. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2018 $'000	2017 $'000
Trade receivables	2	25
Accrued income	5,198	4,915
	5,200	4,940
Other receivables	6	–
	5,206	**4,940**

Impairment of receivables

As at 30 June 2018 and 30 June 2017 there were no impaired receivables or any past due but not impaired.

NOTE 9. CURRENT ASSETS – INVESTMENTS IN FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Listed shares – held for trading	**–**	**26,768**
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	26,768	3,620
Additions	–	3,687
Additions through business combinations (note 29)	–	25,518
Disposals on deconsolidation	(26,768)	(2,986)
Revaluation increments	–	549
Reclassification to investments accounted for using equity method	–	(3,620)
Closing fair value	**–**	**26,768**

Refer to note 22 for further information on fair value measurement.

NOTE 10. CURRENT ASSETS – OTHER CURRENT ASSETS

Prepayments	725	569
Security deposits	40	75
Other deposits	17	11
Other current assets	–	147
	782	**802**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. NON-CURRENT ASSETS – OTHER RECEIVABLES

	Consolidated	
	2018 $'000	2017 $'000
Other receivables	400	400
Security deposits	476	442
Other loans	856	1,416
	1,732	**2,258**

NOTE 12. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates	7,481	3,712

Refer to note 32 for further information on interests in associates.

NOTE 13. NON-CURRENT ASSETS – INVESTMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets at fair value	9,637	7,196

Refer to note 22 for further information on fair value measurement.

NOTE 14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Leasehold improvements - at cost	162	588
Less: Accumulated depreciation	(46)	(437)
	116	**151**
Furniture and fittings - at cost	253	238
Less: Accumulated depreciation	(201)	(166)
	52	**72**
Plant and equipment - at cost	901	937
Less: Accumulated depreciation	(754)	(798)
	147	**139**
	315	**362**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $'000	Furniture and fittings $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2016	**41**	**88**	**185**	**314**
Additions	143	23	66	232
Additions through business combinations (note 29)	–	254	36	290
Write off of assets	–	(254)	(32)	(286)
Depreciation expense	(33)	(39)	(116)	(188)
Balance at 30 June 2017	**151**	**72**	**139**	**362**
Additions	1	9	97	107
Write off of assets	–	–	(1)	(1)
Depreciation expense	(36)	(29)	(88)	(153)
Balance at 30 June 2018	**116**	**52**	**147**	**315**

NOTE 15. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	2018 $'000	2017 $'000
Goodwill – at cost	**40,627**	**40,627**
Acquired relationships – at cost	26,520	26,520
Less: Accumulated amortisation	(2,606)	(200)
	23,914	**26,320**
	64,541	**65,992**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Acquired relationships $'000	Total $'000
Balance at 1 July 2016	–	–	–
Additions through business combinations (note 29)	40,627	26,520	67,147
Amortisation expense	–	(200)	(200)
Balance at 30 June 2017	**40,627**	**26,320**	**66,947**
Amortisation expense	–	(2,406)	(2,406)
Balance at 30 June 2018	**40,627**	**23,914**	**64,541**

Refer note 29 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 15. NON-CURRENT ASSETS – INTANGIBLES (CONTINUED)

The Group identifies a single cash-generating unit ('CGU') and, therefore, the recoverable amount has been determined at the group level.

The recoverable amount of the group's goodwill has been determined by value-in-use calculations. The calculations use cash flow projections based on the business plan approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The following key assumptions were used in the discounted cash flow model:

a. Pre-tax discount rate: 11.9%;

b. Projected growth rate of 2.5% beyond five year period for the CGU; and

c. Increase in operating costs and overheads based on current expenditure levels adjusted for inflationary increases.

For the financial year ended 30 June 2018, the recoverable amount of net assets for the Group is greater than the carrying value of the assets and therefore, the goodwill is not considered to be impaired.

Sensitivity analysis:

Management estimates that any reasonable changes in the key assumptions would not have a significant impact on the value-in-use of goodwill that would require the assets to be impaired.

The remaining amortisation period for the acquired relationships is between 6 and 12 years.

NOTE 16. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2018 $'000	**2017 $'000**
Trade payables	426	1,055
Accrued expenses	3,761	12,106
Fund manager profit share	5,353	3,219
Other payables	349	496
	9,889	**16,876**

Refer to note 21 for further information on financial instruments.

NOTE 17. CURRENT LIABILITIES – EMPLOYEE BENEFITS

Annual leave	475	511
Long service leave	468	–
	943	**511**

NOTE 18. EQUITY – CONTRIBUTED EQUITY

The number of shares and dollar value represents the continuation of Pengana Holdings Pty Ltd ('PH'). Consequent to reverse acquisition accounting, with effect from 1 June 2017, the shares were converted into issued capital of Pengana Capital Group Limited ('PCG').

	Consolidated			
	2018 Shares	**2017 Shares**	**2018 $'000**	**2017 $'000**
Ordinary shares – fully paid	101,689,016	101,477,092	115,134	114,381
Less: Treasury shares	(22,853,722)	(22,853,722)	(27,220)	(27,220)
	78,835,294	**78,623,370**	**87,914**	**87,161**

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	**1 July 2016**	**558,741**	**25,298**
Issue of shares in PH under loan share plan	3 March 2017	58,075	8,315
Shares in PH relinquished on reverse acquisition	1 June 2017	(616,816)	–
New shares issued in PCG on reverse acquisition	1 June 2017	74,147,449	–
Shares to effect the deemed acquisition of Hunter Hall (note 29)	1 June 2017	27,329,643	80,896
Share issue transaction costs, net of tax		–	(128)
Balance	**30 June 2017**	**101,477,092**	**114,381**
Issue of shares as part consideration for investment in Global Credit Investments Pty Ltd	19 June 2018	137,350	490
Issue of shares in accordance with short term incentive	29 June 2018	74,574	263
Balance	**30 June 2018**	**101,689,016**	**115,134**

Movements in treasury shares

Details	Date	Shares	$'000
Balance	**1 July 2016**	**–**	**–**
Shares acquired in PH under loan share plan	1 March 2017	(132,040)	(18,905)
Issue of shares in PH under loan share plan	3 March 2017	(58,075)	(8,315)
Shares in PH relinquished on reverse acquisition	1 June 2017	190,115	–
New shares issued in PCG on reverse acquisition	1 June 2017	(22,853,722)	–
Balance	**30 June 2017**	**(22,853,722)**	**(27,220)**
Balance	**30 June 2018**	**(22,853,722)**	**(27,220)**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Treasury shares

The company has an equity scheme pursuant to which certain employees and fund managers may access a loan share plan ('LSP'). The acquisition of shares under this LSP is fully funded by the company through the granting of a limited recourse loan. The LSP shares are subject to escrow and transfer is restricted until the vesting conditions are satisfied and the loan is repaid. Vested and unvested shares are recorded as treasury shares representing a deduction against issued capital. These have been accounted for as a share-based payment. Refer to note 35 for further details. When the loans are settled the treasury shares are reclassified as ordinary shares and the equity will increase by the amount of the loan repaid.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The group has no borrowings as at 30 June 2018 (June 2017: Nil)

Two wholly owned subsidiaries of the group, Pengana Capital Limited ('PCL') and Pengana Investment Management Ltd ('PIML') (formerly Hunter Hall Investment Management Ltd), hold an Australian Financial Services License and are subject to regulatory financial requirements that include maintaining a minimum level of net tangible assets. As at 30 June 2018 PCL and PIML were required to maintain $5,000,000 and $4,000,000 respectively in liquid assets, of which 50% is held in cash or cash equivalents.

The directors believe the group has adequate capital at 30 June 2018 to maintain the groups existing business activities and facilitate growth.

The capital risk management policy remains unchanged from the 2017 Annual Report.

NOTE 19. EQUITY – RESERVES

	Consolidated	
	2018 $'000	**2017 $'000**
Profits reserve	23,867	23,867
Share-based payments reserve	5,407	5,029
Available-for-sale reserve	171	3
	29,445	**28,899**

Profits reserve

The profits reserve records the 2013 Pengana Holdings profit, which has not been offset against accumulated losses from prior years. The reserve is used for distribution of dividends.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and fund managers as part of their remuneration, and other parties as part of their compensation for services.

Available-for-sale reserve

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Profits reserve $'000	Share-based payments reserve $'000	Available-for-sale reserve $'000	Total $'000
Balance at 30 June 2016	**29,867**	**–**	**–**	**29,867**
Revaluation – gross	–	–	4	4
Deferred tax	–	–	(1)	(1)
Dividends paid	(6,000)	–	–	(6,000)
Share-based payments	–	5,029	–	5,029
Balance at 30 June 2017	**23,867**	**5,029**	**3**	**28,899**
Revaluation - gross	–	–	240	240
Deferred tax	–	–	(72)	(72)
Share-based payments	–	378	–	378
Balance at 30 June 2018	**23,867**	**5,407**	**171**	**29,445**

NOTE 20. EQUITY – DIVIDENDS

Dividends paid during the financial year were as follows:

	Consolidated 2018 $'000	2017 $'000
On 30 August 2017, fully franked final dividend of 4.5 cents per ordinary share was declared for the year ended 30 June 2017 and paid on 28 September 2017 to shareholders registered on 14 September 2017 (2017: $10.74 per Pengana Holdings Pty Ltd ordinary share paid on 18 October 2016 prior to the reverse acquisition).	3,538	6,000
On 27 February 2018, fully franked interim dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 19 March 2018 to shareholders registered on 5 March 2018.	5,111	–
	8,649	6,000

On 28 August 2018, fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 to be paid on 28 September 2018 to shareholders registered on 14 September 2018.

Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%	3,553	3,746

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

NOTE 21. FINANCIAL INSTRUMENTS

Financial risk management objectives

The group's activities expose it to a variety of financial risks: market risk (including foreign currency, interest rate and price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed, including sensitivity analysis.

In particular, the group manages the investments of certain funds and clients where it is entitled to receive management fees and fees contingent upon performance of the portfolio managed, on an annual basis or longer. All fees are exposed to significant risk associated with the funds' performance, including market risks (interest rate risk and indirectly market risk and foreign exchange risk) and liquidity risk as detailed below.

Risk management is carried out by the Board of Directors and discussed at board meetings. Management identifies and evaluates financial risks.

Market risk

Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The group undertakes certain transactions denominated in foreign currency (mainly US dollar) and the balances at the reporting date are not material and a 10% movement in those balances would not cause a significant fluctuation in profit or loss or equity of the group.

Price risk

The group is exposed to direct equity price risk on its financial assets that are at fair value. The table below summarises the impact of a 10% movement in the market value of these assets:

	Average price increase			Average price decrease		
Consolidated – 2018	**% Change**	**Effect on profit before tax**	**Effect on equity**	**% Change**	**Effect on profit before tax**	**Effect on equity**
Listed shares	10%	–	–	(10%)	–	–

	Average price increase			Average price decrease		
Consolidated – 2017	**% Change**	**Effect on profit before tax**	**Effect on equity**	**% Change**	**Effect on profit before tax**	**Effect on equity**
Listed shares	10%	2,677	1,874	(10%)	(2,677)	(1,874)

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Interest rate risk

The group's main interest rate risk arises from cash and cash equivalents. Cash and cash equivalents held at variable rates expose the group to interest rate risk. Cash and cash equivalents held at fixed rates expose the group to fair value interest rate risk.

As at the reporting date, the group had the following variable rate cash and cash equivalents:

	2018		2017	
Consolidated	**Weighted average interest rate**	**Balance $'000**	**Weighted average interest rate**	**Balance $'000**
Cash at bank	0.14%	12,406	0.49%	14,951
Cash on deposit	2.00%	3,664	2.34%	5,216
Net exposure to cash flow interest rate risk		**16,070**		**20,167**

The table below summarises the impact of a 50 basis point movement in interest:

	Basis points increase			Basis points decrease		
Consolidated – 2018	**Basis points change**	**Effect on profit/loss before tax**	**Effect on equity**	**Basis points change**	**Effect on profit/loss before tax**	**Effect on equity**
Net exposure to cash flow interest rate risk	50	80	56	(50)	(80)	(56)
Consolidated – 2017						
Net exposure to cash flow interest rate risk	50	101	71	(50)	(101)	(71)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The group does not hold any collateral.

The group has a credit risk exposure with the cash at bank, redemptions receivable, loans to shareholders and fund managers and funds under management. The funds under management as at 30 June 2018 owed the group 100% (2017: 100%) of trade receivables and accrued income. The balance was within its terms of trade and no impairment was made as at the reporting date. These receivables represent management fees that are accrued daily and paid monthly by the Funds.

Other loans receivables amount to $856,000 as at 30 June 2018 (2017: $1,416,000). The loans were made to shareholders and used to fund the purchase of shares in Pengana Capital Group Limited. The loans are interest free and secured against the purchased shares in Pengana Capital Group Limited. The timing of these amounts due under these agreements are at the discretion of the group.

Liquidity risk

Managing liquidity risk requires the group to maintain sufficient liquid assets (mainly cash and cash equivalents and listed investments) to be able to pay debts as and when they become due and payable.

The group manages liquidity risk by maintaining adequate cash reserves by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2018	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	426	–	–	–	426
Other payables	349	–	–	–	349
Fund manager profit share	5,353	–	–	–	5,353
Security deposits held	–	5	–	–	5
Total non-derivatives	**6,128**	**5**	**–**	**–**	**6,133**

Consolidated – 2017	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	1,055	–	–	–	1,055
Other payables	496	–	–	–	496
Fund manager profit share	3,219	–	–	–	3,219
Security deposits held	–	5	–	–	5
Net assets attributable to unitholders	18,768	–	–	–	18,768
Total non-derivatives	**23,538**	**5**	**–**	**–**	**23,543**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

NOTE 22. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Observable market data used in valuation techniques to determine the fair value. Level 2 instruments are not traded in an active market

Level 3: Unobservable inputs for the asset or liability

Consolidated – 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investments in available-for-sale financial assets	9,637	–	–	9,637
Total assets	**9,637**	**–**	**–**	**9,637**

Consolidated – 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Listed investments – held for trading	26,768	–	–	26,768
Investments in available-for-sale financial assets	7,196	–	–	7,196
Total assets	**33,964**	**–**	**–**	**33,964**

There were no transfers between levels during the financial year.

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to their short-term nature.

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	Consolidated	
	2018 **$**	**2017** **$**
Short-term employee benefits	1,326,438	981,709
Post-employment benefits	77,981	70,668
Long-term benefits	37,573	6,300
Share-based payments	22,891	4,913,681
	1,464,883	**5,972,358**

Short-term employee benefits consists of cash salaries and fees.

NOTE 24. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	Consolidated	
	2018 **$'000**	**2017** **$'000**
Audit services - Grant Thornton Audit Pty Ltd		
Audit or review of the financial statements	203,318	133,500

NOTE 25. CONTINGENT LIABILITIES

The group had no contingent liabilities at 30 June 2018 and 30 June 2017.

NOTE 26. COMMITMENTS

	Consolidated	
	2018 **$'000**	**2017** **$'000**
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	829	801
One to five years	1,196	1,913
More than five years	–	73
	2,025	**2,787**

The property leases are non-cancellable leases with a maximum 5 year term, with rent payable monthly in advance. Options exist to renew the leases at the end of the term.

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NOTE 27. RELATED PARTY TRANSACTIONS

Parent entity

Pengana Capital Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Associates

Interests in associates are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with related parties – managed investment schemes

The following transactions occurred with related parties:

	Consolidated	
	2018 $'000	2017 $'000
Sale of goods and services:		
Management fees	39,557,398	25,065,271
Performance fees	11,696,361	11,953,010
Other fee revenue received from related parties	–	4,483
Payment for goods and services:		
Purchase of services from other related parties	–	5,125

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2018 $'000	2017 $'000
Current receivables:		
Trade receivables and accrued income from other related parties	5,200,630	4,939,857

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 28. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

Statement of Profit or Loss and other comprehensive income

	Parent	
	2018 $'000	2017 $'000
Profit/(loss) after income tax	18,824	(1,052)
Total comprehensive income	**18,824**	**(1,052)**

Statement of Financial Position

Total current assets	10,021	7,784
Total assets	**227,929**	**240,633**
Total current liabilities	1,970	4,369
Total liabilities	**1,785**	**4,629**
Equity		
Contributed equity	212,097	238,564
Share-based payments reserve	5,407	–
Available-for-sale reserve	82	–
Retained profits/(accumulated losses)	8,558	(2,560)
Total equity	**226,144**	**236,004**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

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NOTE 29. BUSINESS COMBINATIONS IN THE PREVIOUS YEAR

On 1 June 2017, Hunter Hall International Limited (now renamed Pengana Capital Group Limited) ('the legal parent' or 'Hunter Hall') acquired all the shares in Pengana Holdings Pty Ltd ('the legal subsidiary' or 'Pengana Holdings') in return for the issuance of 74,147,449 Hunter Hall shares to the Pengana Holdings shareholders.

Hunter Hall shareholders owned 26.9% and the Pengana Holdings shareholders owned 73.1% of the issued shares of Hunter Hall. The transaction has been accounted for as a business combination and the principles of reverse acquisition accounting applied i.e. Pengana Holdings acquiring Hunter Hall.

The values identified in relation to the acquisition of Hunter Hall International Limited ('Hunter Hall') as at 30 June 2017 were provisional and have now been finalised. This has resulted in an increase in goodwill by $955,000 and an increase in deferred tax liabilities by $955,000.

There was no impact on the comparative period statement of profit or loss and other comprehensive income or the opening retained earnings. The fair value table below and the comparative year statement of financial position as at 30 June 2017 have been adjusted accordingly.

Details of the acquisition are as follows:

	Hunter Hall International Limited Fair value $'000
Cash and cash equivalents	18,836
Trade and other receivables	1,787
Income tax refund due	888
Investment in financial assets	25,518
Other investments	6,953
Other current assets	277
Plant and equipment	290
Acquired relationships	26,520
Deferred tax liability	(8,335)
Trade and other payables	(5,349)
Employee benefits	(1,358)
Net assets attributable to unitholders	(25,758)
Net assets acquired	40,269
Goodwill	40,627
Acquisition-date fair value of the total consideration transferred	**80,896**
Representing:	
Notional Pengana Capital Group Limited shares issued to effect the acquisition (note 18)*	**80,896**
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	80,896
Less: notional Pengana Capital Group Limited shares issued to effect the acquisition	(80,896)
Less: cash and cash equivalents acquired	(18,836)
Net cash received	**(18,836)**

* Acquisition date fair value of consideration transferred is calculated based on 27,329,643 shares of Hunter Hall International Limited (ASX: HHL) public market price of $2.96 per share on the date of acquisition.

NOTE 30. DECONSOLIDATION OF SUBSIDIARY

On 25 September 2017, the Group sold its controlling interest in High Conviction Equity Fund.

Details of disposal are as follows:

	Carrying value $'000
Cash and cash equivalents	346
Trade and other receivables	8,932
Investment in financial assets	20,581
Trade and other payables	(4)
Net assets attributable to unitholders	(21,777)
Net carrying value of assets and liabilities on disposal	**8,078**
Cash received on sale, net of cash on disposal:	
Fair value of consideration received	8,078
Less: Cash and cash equivalents held on disposal	(346)
Proceeds from disposal of interests in subsidiary	**7,732**

NOTE 31. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 1:

		Parent		Non-controlling interest	
Name	Principal place of business / Country of incorporation*	Ownership interest 2018 %	Ownership interest 2017 %	Ownership interest 2018 %	Ownership interest 2017 %
Pengana Holdings Pty Ltd	Australia	100%	100%	–	–
Pengana Capital Ltd	Australia	100%	100%	–	–
Pengana European Asset Management Pty Limited	Australia	50%	50%	50%	50%
Pengana Affinity Funds Pty Ltd	Australia	70%	70%	30%	30%
Pengana Singapore Pte. Ltd	Singapore	100%	100%	–	–
Pengana Investment Management Ltd	Australia	100%	100%	–	–
Rushcutter Investments Pty Ltd	Australia	100%	100%	–	–
Bennelong Administration Services Pty Ltd	Australia	100%	100%	–	–
Hunter Hall International (UK) Ltd	United Kingdom	–	100%	–	–
High Conviction Equities Fund	Australia	–	33%	–	67%

* Principal activities of the subsidiaries listed above are provision of Investment Management Services.

Summarised financial information for subsidiaries that have non-controlling interests, has not been provided as they are not material to the group.

PENGANA CAPITAL

NOTE 32. INTERESTS IN ASSOCIATES

The following interests in associates are accounted for using the equity method of accounting:

Name	Principal place of business / Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
Pengana Asia Special Events (Offshore) Fund	Cayman Islands	2.49%	2.21%
Pengana Global Small Companies Fund	Australia	0.77%	5.79%
Pengana International Fund – Managed Risk	Australia	1.38%	3.19%
Global Credit Investments Pty Ltd	Australia	34.65%	–

Summarised financial information relating to associates that are material to the group are set out below:

Summarised financial information

	Pengana Asia Special Events (Offshore) Fund		Global credit Investments	Other	
Summarised Statement of Financial Position	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2018 $'000**	**2017 $'000**
Assets	50,357	55,562	1,596	265,647	54,507
Total assets	50,357	55,562	1,596	265,647	54,507
Liabilities	56	114	243	1,045	2,728
Total liabilities	56	114	243	1,045	2,728
Net assets	**50,301**	**55,448**	**1,353**	**264,602**	**51,779**
Summarised Statement of Profit or Loss and Other Comprehensive Income					
Revenue	3,188	6,738	2,000	22,080	3,261
Expenses	(3,557)	(1,219)	(1,329)	(2,894)	(678)
Profit/(loss) before income tax	(369)	5,519	671	19,186	2,583
Other comprehensive income	–	–	–	–	–
Total comprehensive income	**(369)**	**5,519**	**671**	**19,186**	**2,583**
Reconciliation of the group's carrying amount					
Opening carrying amount	1,527	19,894	–	2,185	1,832
Share of profit after income tax	12	460	–	299	399
Acquisition of interests	2	–	3,436	2	2,146
Redemptions	–	(18,838)	–	–	(4,267)
Subsidiary transfer to investments accounted for using the equity method	–	–	–	–	2,075
Exchange difference	32	–	–	–	–
Equalisation loss	(2)	11	–	(13)	–
Closing carrying amount	**1,571**	**1,527**	**3,436**	**2,473**	**2,185**

The carrying amount of investments in associates is equal to its fair value.

NOTE 33. UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

The group has a 99.9% (2017: 99.9%) interest in Pengana Structured Investment Pty Ltd ('PSIPL'), an entity established to issue financial products to investors. The entity provides investors with a range of investment opportunities through managed investment strategies. PSIPL has not been consolidated because the group has determined the entity is not controlled on the basis that the variability of returns is borne by the third party note holders rather than the group. The entity has acquired funds through the issuance of a number of note instruments. The group is not exposed to significant losses through its interest. As at the reporting date, the carrying amount of the assets of PSIPL is $Nil (2017: $6,056,000). The carrying amount of the liabilities is $Nil (2017: $6,056,000).

The group has significant influence over the funds it manages due to its power to participate in the financial and operating policy decisions of the investee through its investment management agreement. The group considers all funds to be structured entities. The group invests in its own managed funds to seed the funds to develop a performance track record prior to external investment being received or provides early stage capital.

The funds' objectives are defined in the offer document and constitution of the respective fund. The funds invest in a number of different financial instruments including equities and debt instruments. The funds' finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets. The group holds redeemable units in some of its own managed funds.

Unless specified otherwise, the group's maximum exposure to loss is the total of its on-balance sheet positions as at reporting date. There are no additional off balance sheet arrangements which would expose the group to potential loss.

NOTE 34. CASH FLOW INFORMATION

Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated	
	2018 $'000	**2017 $'000**
Profit/(loss) after income tax expense for the year	**7,090**	**(2,694)**
Depreciation and amortisation	2,559	388
Share of profit - associates	(311)	(859)
Share-based payments	378	5,029
Foreign exchange differences	(21)	22
Distributions paid to unitholders -financing activity	627	4,230
Unitholder share of profit or loss	281	(6,630)
Write downs	136	5
Other non-cash items	(173)	100
Net (gain)/loss on financial assets	(3,848)	329
Proceeds of investments in financial assets at fair value through profit or loss	–	(347)
Proceeds from sale of investments in financial assets at fair value through profit or loss	103	–

	Consolidated 2018 $'000	2017 $'000
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(267)	307
Decrease/(increase) in deferred tax assets	–	(250)
Decrease/(increase) in other financial assets at fair value through profit or loss	26,768	(2,439)
Increase/(decrease) in trade and other payables	(6,985)	1,670
Decrease/(increase) in income tax refund due	146	302
Increase/(decrease) in deferred tax liabilities	–	7,894
Increase/(decrease) in other financial liabilities at fair value through profit or loss	(18,768)	18,594
Net cash from operating activities	**7,715**	**25,651**

Non-cash investing and financing activities

Shares issued in relation to business combinations	–	80,896
Shares issued in relation to purchase of investments in Associates	490	–
Shares issued in accordance with short term retention scheme	263	(3,644)
Purchase of investment into associates- reinvestment of dividends	(1,847)	3,677
Sale of investment in associates	1,571	–
Purchase of property, plant and equipment	(19)	–
	458	**80,929**

Changes in liabilities arising from financing activities

Consolidated	**Other loans receivable $'000**
Balance at 1 July 2016	1,934
Net cash from financing activities	(436)
Non-cash repayment of loan via dividends	(82)
Balance at 30 June 2017	1,416
Net cash from financing activities	(246)
Non-cash amortisation of loan received	(222)
Non-cash repayment of loan via dividends	(92)
Balance at 30 June 2018	**856**

NOTE 35. SHARE-BASED PAYMENTS

Loan Funded Share Plan ('LSP')

Loan Funded Share Plan ('LSP') The group operates a LSP, originally implemented by Pengana Holdings Pty Ltd prior to the merger with Pengana Capital Group Ltd (Formerly known as Hunter Hall International Limited) whereby Pengana Holdings provided limited recourse loans totalling $27,220,000 to the CEO and certain

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 35. SHARE-BASED PAYMENTS (CONTINUED)

employees and fund managers of Pengana Holdings to acquire shares in Pengana Holdings. Under the plan the CEO received 15,872,528 shares, employees and fund managers received 6,981,194 shares. The loans are interest bearing and have a maximum term of up to seven years. Recourse on the loans (including associated interest) is limited to the associated shares and any dividend amounts applied to the loan balance. The shares granted under the LSP are subject to a vesting condition, that the employees and fund managers must remain continuously employed for five years from the grant date, except for shares associated with the LSP granted to the CEO which are not subject to a vesting condition and vested on the date the shares were granted.

As the share purchases are funded by limited recourse loans they are treated for accounting purposes as grants of share options and accounted for as equity-settled share-based payments. The shares issued under the LSP are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period. As the loans and associated shares issued are not recorded on the statement of financial position on grant date, there are no transactions in the statement of financial position relating to the issue of shares under the LSP, however a share-based payment expense of $378,000 has been recognised in profit or loss for the year ended 30 June 2018 (2017: $5,029,000).

Interest accruing on the loans and dividends applied to the loans are not recorded in the financial statements but do impact the outstanding loan balance. As at 30 June 2018 total outstanding loans related to treasury shares were $27,528,000 (2017: $27,928,000).

Set out below are summaries of shares granted under the LSP:

2018

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted*	Exercised	Expired / forfeited / other	Balance at the end of the year
01/03/2017	28/02/2024	$1.49	5,149,796	–	–	–	5,149,796
01/03/2017	28/02/2024	$1.20	10,722,732	–	–	–	10,722,732
03/03/2017	01/03/2024	$1.49	6,981,194	–	–	–	6,981,194
			22,853,722	**–**	**–**	**–**	**22,853,722**
Weighted average exercise price			$1.35	$0.00	$0.00	$0.00	$1.35

2017

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted*	Exercised	Expired / forfeited / other	Balance at the end of the year
01/03/2017	28/02/2024	$1.49	–	5,149,796	–	–	5,149,796
01/03/2017	28/02/2024	$1.20	–	10,722,732	–	–	10,722,732
03/03/2017	01/03/2024	$1.49	–	6,981,194	–	–	6,981,194
			–	**22,853,722**	**–**	**–**	**22,853,722**
Weighted average exercise price			$0.00	$1.35	$0.00	$0.00	$1.35

Set out below are the shares granted under the LSP exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
01/03/2017	28/02/2024	5,149,796	5,149,796
01/03/2017	28/02/2024	10,722,732	10,722,732
		15,872,528	**15,872,528**

The weighted average share price during the financial year was $3.26.

The weighted average remaining contractual life of shares granted under the LSP outstanding at the end of the financial year was 5.67 years (2017:6.67 years).

PENGANA CAPITAL

NOTE 36. EARNINGS PER SHARE

	Consolidated	
	2018 $'000	2017 $'000
Profit/(loss) after income tax	7,090	(2,694)
Non-controlling interest	(110)	(120)
Profit/(loss) after income tax attributable to the owners of Pengana Capital Group Limited	6,980	(2,814)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	78,628,294	64,067,308
Adjustments for calculation of diluted earnings per share: Options over ordinary shares	11,704,450	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	90,332,744	64,067,308
	Cents	**Cents**
Basic earnings per share	8.88	(4.39)
Diluted earnings per share	7.73	(4.39)

The weighted average number of ordinary shares for year ended 30 June 2018 does not include 22,853,722 treasury shares (2017: 22,853,722).

NOTE 37. GENERAL INFORMATION

Pengana Capital Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12
167 Macquarie Street
Sydney NSW 2000

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2018. The directors have the power to amend and reissue the financial statements.

NOTE 38. EVENTS AFTER THE REPORTING PERIOD

Apart from the dividend declared as disclosed in note 20, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

DIRECTORS' DECLARATION

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors,

Russel Pillemer	**Warwick Negus**
Chief Executive Officer	Chairman
28 August 2018	28 August 2018
Sydney	Sydney

INDEPENDENT AUDITOR'S REPORT

PENGANA
CAPITAL

Grant Thornton

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Independent Auditor's Report

To the Members of Pengana Capital Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Pengana Capital Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Grant Thornton

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill & other intangibles – refer to Note 15. Non-current assets - intangibles	
On 1 June 2017, Hunter Hall International Limited (ASX: HHL) merged with Pengana Holdings Pty Limited to create Pengana Capital Group Limited (ASX: PCG). This reverse acquisition gave rise to goodwill and also finite life intangible assets for the investment management agreement and relationships acquired. All assets must be assessed at each reporting date for any indication of impairment. Goodwill must be tested annually for impairment regardless of whether any indication of impairment exists. Pengana Capital Group Limited has utilised the value in use method to calculate the recoverable amount of intangible assets. Due to the significant estimation involved in calculating the recoverable amount, we have determined this to be a key audit matter.	Our procedures included, amongst others: • assessing the competence and objectivity of management's expert; • reviewing the goodwill impairment model for compliance with AASB 136; • assessing the determination of the Cash Generating Unit (CGU) based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows; • verifying the mathematical accuracy of the underlying model calculations and assessing the appropriateness of the methodologies; • evaluating the cash flow projections and the process by which they were developed; • performing sensitivity analysis in relation to cash flow projections, discount and growth rate assumptions on CGUs with a higher risk of impairment; • evaluating for indicators of management bias throughout our evaluation of the key inputs and assumptions of the estimate; and • assessing the adequacy of financial report disclosures on the application of judgement in estimating future cash flows and the key methods and assumptions used in the impairment assessment.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Grant Thornton

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 17 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Pengana Capital Group Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 28 August 2018

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 9 August 2018.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	571
1,001 to 5,000	707
5,001 to 10,000	295
10,001 to 100,000	284
100,001 and over	43
	1,900
Holding less than a marketable parcel	131

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
WHSP PENGANA PTY LTD	27,176,596	26.73
RC PILLEMER PTY LTD (RC PILLEMER FAMILY A/C)	24,960,404	24.55
WHSP HUNTER HALL PTY LTD	6,641,522	6.53
WASHINGTON H SOUL PATTINSON AND COMPANY	5,434,653	5.34
FARNWORTH HOUSE PTY LTD	3,358,307	3.30
DJG SERVICES PTY LIMITED (DKI ACCOUNT)	2,079,994	2.05
ROXTRUS PTY LIMITED (ROXANNE DUNKEL NO. 2 A/C)	1,803,150	1.77
DAMIAN CROWLEY JULIE CROWLEY (DAMIAN C CROWLEY FAMILY FUND)	1,789,325	1.76
RADD HOLDINGS PTY LIMITED (MYERS FAMILY A/C)	1,341,904	1.32
RUSSEL CRAIG PILLEMER	1,262,205	1.24
DBR CORPORATION PTY LTD	1,255,260	1.23
TARK FAMILY HOLDINGS PTY LTD (TARK FAMILY A/C)	1,100,162	1.08
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,026,369	1.01
STEVE BLACK	973,701	0.96
ED PRENDERGAST	973,701	0.96
STEVE BLACK (BLACK FAMILY A/C)	672,335	0.66
MEG O'HANLON (O'HANLON FAMILY A/C)	672,335	0.66
WHSP HUNTER HALL PTY LTD	575,133	0.57
KATRINA ELIZABETH GLENDINNING	529,525	0.52
MR FREDERICK BRUCE WAREHAM	520,000	0.51
	84,146,581	**82.75**

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Unquoted equity securities

There are no unquoted equity securities.

SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Washington H Soul Pattinson and Company, WHSP Hunter Hall Pty Ltd and WHSP Pengana Pty Ltd	39,827,904	39.17%
Russel Craig Pillemer*	36,091,334	35.49%

* The substantial notice lodged for Russel Pillemer discloses that he has a relevant interest in 36,091,334 ordinary shares in the company. These relevant interests are as follows:

- 1,262,205 shares held by Russel Pillemer
- 24,960,404 shares held by RC Pillemer Pty Ltd (which Russel Pillemer controls)

36,091,334 shares held by Pengana staff or their related parties (including the 26,222,609 shares referred to above held by Russel Pillemer and RC Pillemer Pty Ltd). As Russel Pillemer has voting power in the company above 20% pursuant to section 608(3)(a) of the Corporations Act 2001 he is deemed to have a relevant interest in these shares as the company has the power to prevent the disposal of each of these shares pursuant to a voluntary escrow agreement between the company and the relevant holder.

VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

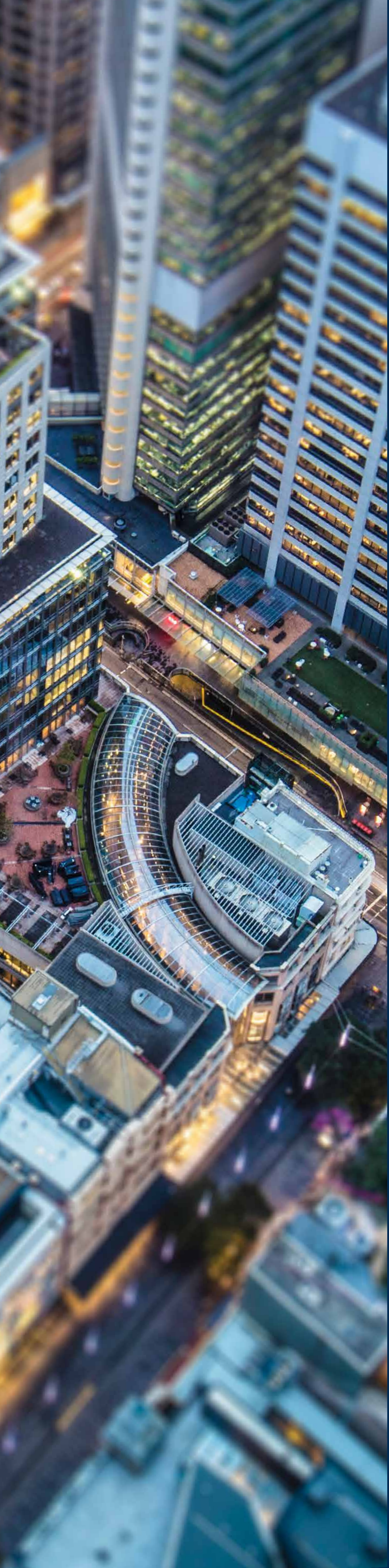
Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

SECURITIES SUBJECT TO VOLUNTARY ESCROW

Class	Expiry date	Number of shares
Ordinary shares	Until 15 February 2023 (portions to be released annually)	23,894,042
Ordinary shares	1 June 2022	6,981,194
Ordinary shares	Until 15 February 2020 (portions to be released annually)	2,675,473
Ordinary shares	Until 25 June 2019	74,574
Ordinary shares	Until 19 June 2020	137,350
		33,762,633



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