

**INTERIM
REPORT**



PENGANA CAPITAL GROUP LIMITED

ABN 43 059 300 426

An aerial night photograph of a dense urban skyline, likely Sydney, showing illuminated skyscrapers and city streets. The image is partially obscured by a large, dark blue, organic-shaped graphic element that contains the reporting period text.

31 December
2017

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HEAD OFFICE**

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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 was approved at the same time as the Annual Report, can be found at www.pengana.com



LETTER FROM THE CEO

Dear fellow Pengana shareholder,

Today we released the results for the six months ending 31 December 2017 for Pengana Capital Group Limited ('Pengana', ASX: PCG). This six-month period has been a consolidation period for the newly merged entity, and we have made good progress on the objectives we set out in the Company's 30 June 2017 Annual Report. Highlights for the period include:

- Statutory profit of \$5.0 million
- Underlying profit of \$7.9 million
- Underlying earnings per share of 7.8 cents per share
- Interim fully franked dividend of 6.5 cents per share

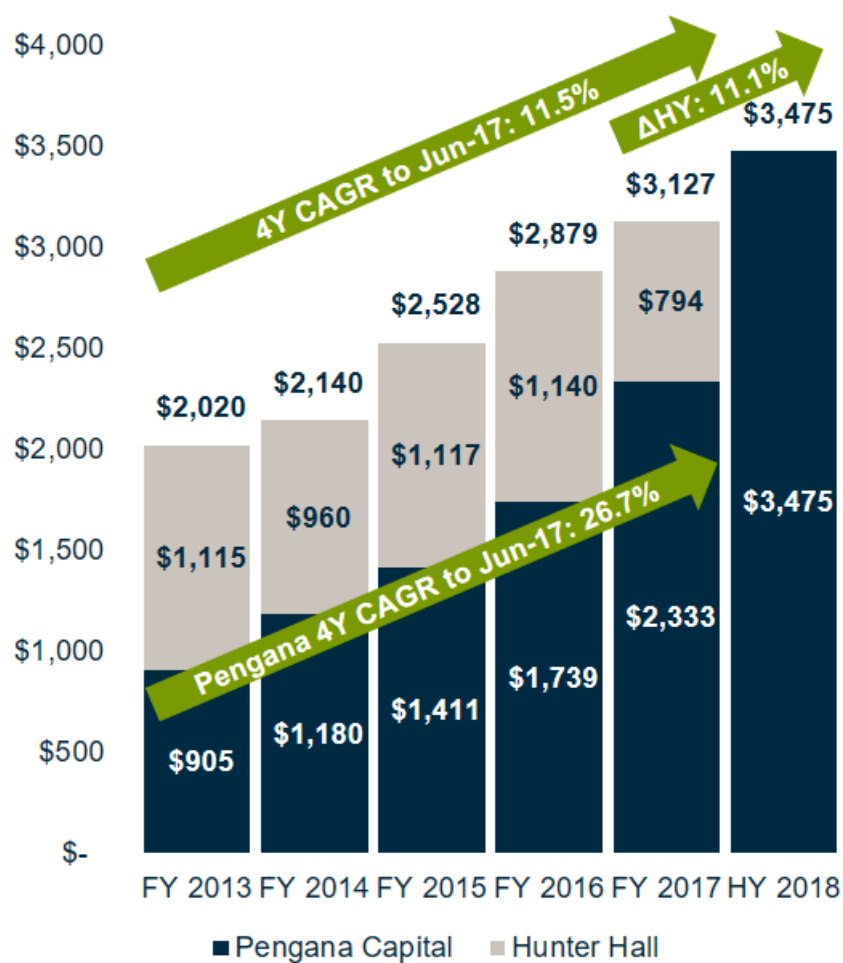
In this letter, I will provide additional information, analysis and commentary that will hopefully enhance your reading of the attached financial statements.

I also touch on PCG's balance sheet and PCG's updated dividend policy, approved by the Board today.

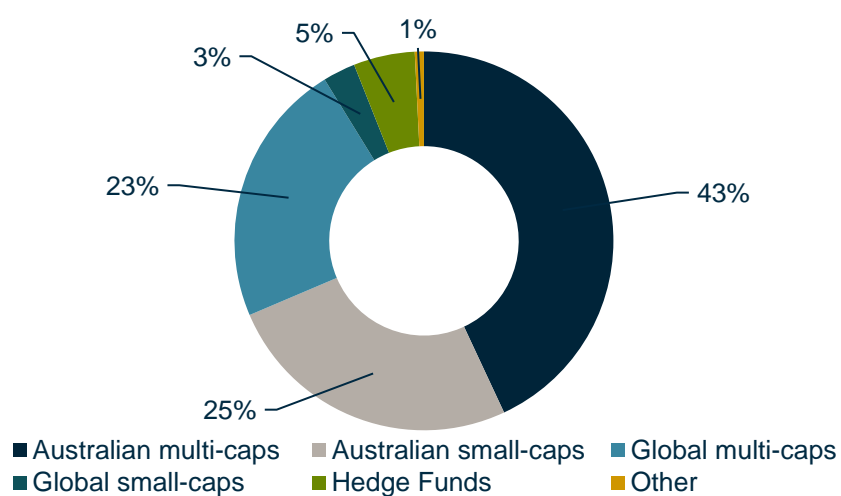
FUNDS UNDER MANAGEMENT

The increase in Funds under Management ('FUM') for the six months to 31 December 2017 was a pleasing 11%, from \$3,127 million as at 30 June 2017 to \$3,475 million at 31 December 2017 with investment performance of \$280 million and net inflows of \$187 million comfortably offsetting distributions of \$47 million paid in the period. This builds on the solid growth of FUM over the past 4 years.

FUM AS AT 31 DECEMBER 2017¹



FUND STRATEGY BREAKDOWN AS AT 31 DECEMBER 2017



¹ Note: past performance is not a reliable indicator of future performance. The value of investments can increase and decrease.

Pengana's FUM is spread across several active equity strategies including: Australian multi-caps; Australian small-caps; global multi-caps; global small-caps; Asian absolute return equities; global equities market neutral; global impact investing; and high conviction. We have had strong growth across multiple strategies, including pleasingly from the global small caps driven by excellent investment performance and strong client demand.

INVESTMENT PERFORMANCE

This six months period builds on the proven long-term performance track records of each of our key strategies². The following table summarises annualised performance since inception ('SI') to 31 December 2017 relative to the index benchmarks.

STRATEGY	STRATEGY INCEPTION	STRATEGY SI NET RETURN	BENCHMARK SI RETURN	OUTPERFORMANCE OF BENCHMARK SI
Absolute Return Asia ³	Oct-08	8.5%	na	na
Australian Multi-caps ⁴	Jul-08	11.3%	3.1%	8.2%
Australian Small-caps ⁵	Nov-04	14.5%	5.1%	9.4%
Global Market Neutral ⁶	Sep-10	8.6%	na	na
Global Multi-caps ⁷	Jul-15	10.0%	9.3%	0.7%
Global Small-caps ⁸	Apr-15	12.1%	8.6%	3.5%
Global Impact Investing ⁹	Jan-06	5.4%	5.4%	0.0%
High Conviction ¹⁰	Dec-14	51.4%	4.8%	46.6%

² Note: past performance is not a reliable indicator of future performance. The value of investments can increase and decrease.

³ Pengana Absolute Return Asia Pacific Fund: equity market benchmark is na; performance fee benchmark is the RBA cash rate which has returned +3.0% SI of the strategy. 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.

⁴ Pengana Australian Equity Fund: benchmark shown is the S&P/ASX All Ords Index; performance fee benchmark is the RBA cash rate which has returned +3.1% SI of the strategy.

⁵ Pengana Emerging Companies Fund: benchmark is the S&P/ASX Small Ordinaries Index.

⁶ 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 which has generated a 2.9% return SI of the strategy. 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.

⁷ Pengana International Fund: benchmark is the MSCI All Country World Net Unhedged in AUD.

⁸ Pengana Global Small Companies Fund: benchmark is the MSCI All Country World SMID Cap Net Unhedged in AUD.

⁹ Pengana 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.

¹⁰ Pengana High Conviction Equities Fund: benchmark shown is the S&P/ASX All Ordinaries Index; performance fee benchmark is the RBA Cash Rate + 3% p.a. which returned 4.9% SI of the strategy.

COMMENTS ON FINANCIAL RESULTS

I would like to draw your attention to the attached financial statements that have been prepared under Australian Accounting Standards ('AAS') and show as comparatives the results of Pengana Holdings Pty Ltd for the six months ending 31 December 2016, as this entity is deemed the acquirer pursuant to AAS. This means that the comparatives are not reflective of the growth of the combined entity. In addition, AAS require that interest income on the Loan Share Plan asset is not taken up in the statutory Statement of Profit or Loss. Presented below is a restated summarised statement of profit and loss.

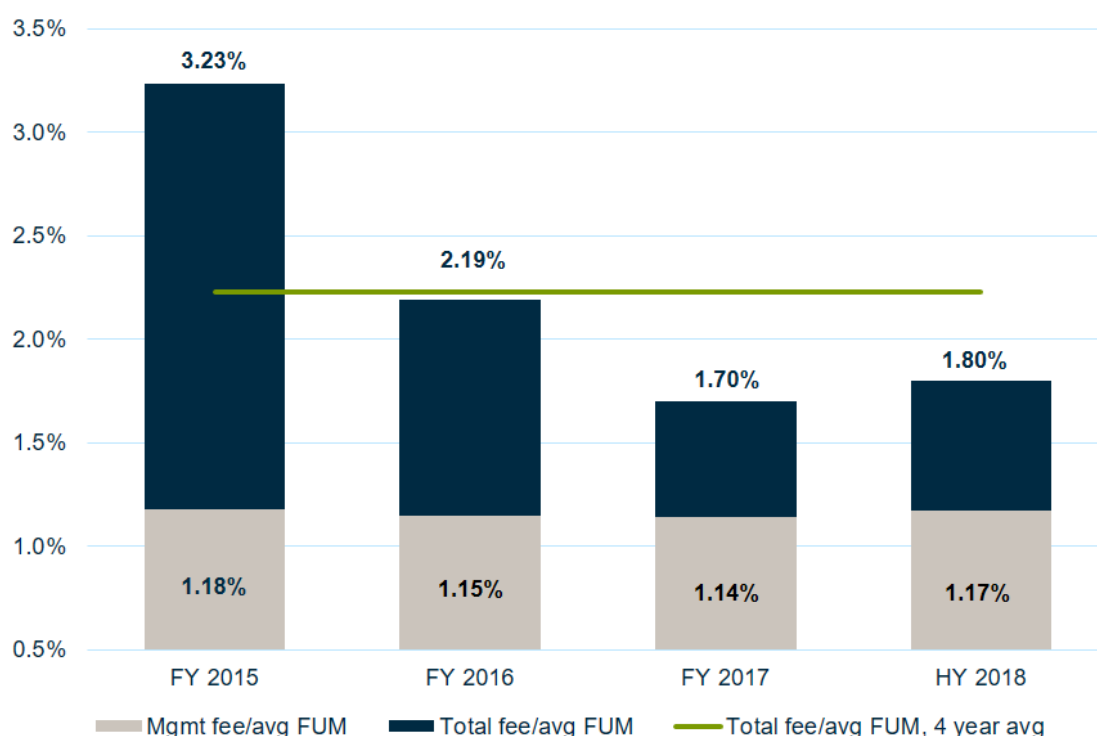
Pengana recorded a statutory profit after tax attributable to Pengana shareholders of \$5.0 million. In order to understand the underlying profitability of the business, the statutory profit should be adjusted by various non-cash and off-balance sheet items:

- Non-cash amortisation of \$1.482 million
- Unrealised investment gains (after tax) accounted through equity of \$0.348 million
- Off balance sheet interest on Loan Share Plan of \$1.063 million

When adjusted for the items above, the underlying net profit after tax of the Company was \$7.9 million which represents 7.8 cents per share. This result reflects strong growth in funds under management driven by a combination of investment performance, continued net fund inflows and performance relative to benchmarks resulting in performance fees.

We have a highly scalable infrastructure and are well placed to grow FUM and fees at a much faster rate than the growth in expenses. At 31 December 2017 our annualised management fee was 1.17%, having remained steady over the last 4 years. Total fee margin was 1.80% which is below our historical 4 year average of 2.23%. It is important to note that performance fees will fluctuate, especially over relatively short periods of time.

ANNUAL FEE MARGIN FY15 TO H1 FY18



The following table shows what we consider to be Pengana's underlying profit for the six months to 31 December 2017 and a reconciliation to statutory profits.

RECONCILIATION OF STATUTORY PROFIT TO UNDERLYING PROFIT AFTER TAX FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	\$'000
Statutory profit after tax attributable to Pengana shareholders¹¹	5,008
Add back:	
Amortisation on acquired relationships and loan share plan	1,482
Unrealised investment gains	348
Interest on Loan Funded Share Plan	1,063
Underlying profit after tax¹²	7,901
Key Statistics	
Total assets under management (\$'million)	3,475
Average assets under management (\$'million)	3,258
Average management fee margin (bps)	117
Average total fee margin (bps)	180
Basic earnings per share on statutory profit (cents per share) ¹³	6.4
Basic earnings per share on underlying profit (cents per share) ¹⁴	7.8
Dividends	
Interim dividend, fully franked (cents per share)	6.5

¹¹ As per Pengana Capital Group Limited 31 December 2017 Financial Statements

¹² Source: Pengana Management Accounts

¹³ Calculated on 78,623,370 shares (i.e. excluding 22,853,722 treasury shares)

¹⁴ Calculated on 101,477,092 shares (i.e. including 22,853,722 treasury shares)

OPERATIONAL UPDATE

We are pleased to have received solid support from our clients and advisors, which resulted in the \$187 million of net inflows. Pleasingly, in late November 2017, funds in the International Equities Strategy (Pengana International Fund¹⁵, Pengana International Fund – Ethical¹⁶ and Pengana International Fund-Managed Risk) were issued with a “Recommended” rating by Zenith Investment Partners, while in January 2018 Lonsec issued a “Investment Grade” rating for the Pengana International Fund – Ethical and the Pengana International Fund – Ethical Opportunity¹⁷. We expect to see the commencement of the impact of these rating upgrades on fund flows in the second half of the financial year.

Pengana should benefit from the trends of compulsory superannuation in the years to come. We have a diverse retail client base with an estimated 50,000 investors across platforms, dealer groups, independent financial advisers, direct high net worth individuals and self-managed super funds; established access to most major platforms and dealer groups, funds on over 150 approved product lists including the approved list of the majority of the top 100 dealer groups and strong ratings from a number of key retail research houses across multiple funds.

Several of the ex-Hunter Hall funds were restructured in the period. Importantly the 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. The effect on the profitability of these measures will be fully reflected in the second half results.

CAPITAL MANAGEMENT & DIVIDENDS

Pengana is in a strong financial position, with no borrowings and at 31 December 2017 had \$20.9 million of net liquid assets in excess of our regulatory requirements of \$10 million.

As discussed in the 30 June 2017 Annual Report, in addition to our net liquid assets, Pengana has provided employees with loans of \$27 million, used to acquire shares in Pengana (prior to the merger). Whilst these loans do not appear on the balance sheet due to their treatment under AAS, they nevertheless are economic assets of Pengana. The average interest rate on these loans is 7.9% (i.e. currently in the order of \$2.1 million in total) and the employees are required to apply 100% of the dividends that they receive on these shares (net of tax) to make interest and capital payments.

As at 31 December 2017 Pengana’s net tangible asset stood at 33.5 cents per share, however the underlying net tangible asset (recognising the above-mentioned loans as assets and the associated treasury shares as equity) is 52.5 cents per share.

INTERIM DIVIDEND

We are pleased to announce that the Board today declared a fully franked interim dividend of 6.5 cents per share. The record date for the dividend is Thursday, 1 March 2018 and the dividend will be paid on Thursday, 15 March 2018.

¹⁵ Formerly the Pengana International Equities Fund

¹⁶ Formerly the Hunter Hall Value Growth Trust

¹⁷ Formerly the Hunter Hall Global Equities Trust

DIVIDEND POLICY

PCG generates income from several sources that will contribute to its ability to pay a dividend, however the two overriding sources are management fees and performance fees.

Profits from management fees will be reasonably predictable and should broadly track the Company's funds under management. Whilst we seek to generate performance fees on a regular basis we acknowledge that they can and may be volatile. In some years it is possible that there will be none.

The Board recognises the value placed by shareholders in a regular dividend and has confirmed its intention of paying out the majority of Pengana's earnings in both an interim and final dividend.

COMMUNICATION

Our shareholders are the owners of the Company and keeping you informed is of utmost importance to us. The best way to ensure that you are kept up-to-date on all of our communications and insights, is to keep your email address updated and current on your Computershare account and to subscribe to our communications via our website.

Over the coming months, Pengana will be holding numerous events for shareholders and investors around the country. I encourage you to contact us (via our website or telephone) and book a place to attend.

Thank you for your continued support and I look forward to meeting many of you at our upcoming roadshows.

Yours sincerely



Russel Pillemer
Chief Executive Officer

Pengana Capital Group Limited
Directors' report
31 December 2017



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 half-year ended 31 December 2017.

Directors

The following persons were directors of Pengana Capital Group Limited during the whole of the financial half-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 half-year were as follows:

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Fully franked final dividend for the year ended 30 June 2017 of 4.5 cents per ordinary share paid on 28 September 2017 (2016: \$10.74 per Pengana Holdings Pty Ltd ordinary share paid on 18 October 2016 prior to the reverse acquisition)	<u>3,538</u>	<u>6,000</u>

On 27 February 2018, the directors declared a fully franked interim dividend for the half-year ended 31 December 2017 of 6.5 cents per ordinary shares, to be paid on 15 March 2018 to eligible shareholders on the register on 1 March 2018.

Review of operations

The profit for the group after providing for income tax and non-controlling interest amounted to \$5,008,000 (31 December 2016: \$3,158,000).

Following the acquisition on 1 June 2017, the group's financial results for the first six months demonstrate the successful integration of the two businesses, Pengana Capital Group Ltd (previously known as Hunter Hall International Limited) and Pengana Holdings Pty Ltd. For a review of operations for the half year ended 31 December 2017, please refer to the letter from the Chief Executive Officer accompanying this Report.

Significant changes in the state of affairs

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

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.

Pengana Capital Group Limited
Directors' report
31 December 2017



This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read "W Negus", written over a horizontal line.

Warwick Negus
Chairman

27 February 2018
Sydney

A handwritten signature in black ink, appearing to read "Russel Pillemer", written over a horizontal line.

Russel Pillemer
Chief Executive Officer

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Sydney NSW 2000

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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 review of Pengana Capital Group Limited for the half-year ended 31 December 2017, 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Adam-Smith
Partner – Audit & Assurance

Sydney, 27 February 2018

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Pengana Capital Group Limited
Statement of profit or loss
For the half-year ended 31 December 2017



		Consolidated	
	Note	31 Dec 2017	31 Dec 2016
		\$'000	\$'000
Revenue			
Management fees		19,172	11,371
Performance fees		10,036	9,028
Total revenue		29,208	20,399
Share of profits of associates accounted for using the equity method		251	426
Other income and gains	3	1,671	229
Total revenue and income		31,130	21,054
Expenses			
Human resources expenses		(5,835)	(4,641)
Fund manager profit share expense		(11,006)	(8,268)
Fund operating expenses		(1,969)	(1,079)
Distribution expenses		(119)	(521)
Occupancy expenses		(499)	(494)
Technology and communications expenses		(585)	(557)
Marketing and investment research expenses		(802)	(392)
Insurance expenses		(260)	(81)
Professional, registry and listing related expenses		(424)	(199)
Reverse acquisition and restructuring costs		(165)	-
Depreciation and amortisation expenses		(1,291)	(96)
Other operating expenses		(367)	(66)
Total expenses		(23,322)	(16,394)
Profit before income tax expense		7,808	4,660
Income tax expense		(2,751)	(1,398)
Profit after income tax expense for the half-year		5,057	3,262
Profit for the half-year is attributable to:			
Non-controlling interest		49	104
Owners of Pengana Capital Group Limited		5,008	3,158
		5,057	3,262
		Cents	Cents
Basic earnings per share	12	6.37	4.70
Diluted earnings per share	12	5.54	4.70

Refer to note 1 for explanation on comparatives.

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

Pengana Capital Group Limited
Statement of other comprehensive income
For the half-year ended 31 December 2017



	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Profit after income tax expense for the half-year	5,057	3,262
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Gain on the revaluation of available-for-sale financial assets, net of tax	348	-
Other comprehensive income for the half-year, net of tax	348	-
Total comprehensive income for the half-year	5,405	3,262
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	49	104
Owners of Pengana Capital Group Limited	5,356	3,158
	5,405	3,262

Refer to note 1 for explanation on comparatives.

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

Pengana Capital Group Limited
Statement of financial position
As at 31 December 2017



		Consolidated	
	Note	31 Dec 2017	30 Jun 2017
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		14,543	20,167
Trade and other receivables	4	11,807	4,940
Investments in financial assets at fair value through profit or loss	5	-	26,768
Income tax refund due		402	583
Term deposits		2,672	-
Other current assets		1,269	802
Total current assets		30,693	53,260
Non-current assets			
Other receivables		2,210	2,258
Investments accounted for using the equity method		3,952	3,712
Investments in available-for-sale financial assets		9,733	7,196
Property, plant and equipment		326	362
Intangibles	6	65,744	66,947
Other		203	-
Total non-current assets		82,168	80,475
Total assets		112,861	133,735
Liabilities			
Current liabilities			
Trade and other payables	7	12,888	16,876
Employee benefits		1,020	511
Net assets attributable to unitholders		-	18,768
Total current liabilities		13,908	36,155
Non-current liabilities			
Deferred tax		6,669	6,889
Employee benefits		169	569
Other		5	5
Total non-current liabilities		6,843	7,463
Total liabilities		20,751	43,618
Net assets		92,110	90,117
Equity			
Contributed equity	8	87,161	87,161
Reserves		29,436	28,899
Accumulated losses		(24,525)	(25,995)
Equity attributable to the owners of Pengana Capital Group Limited		92,072	90,065
Non-controlling interest		38	52
Total equity		92,110	90,117

Refer to note 11 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

The above statement of financial position should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of changes in equity
For the half-year ended 31 December 2017



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 after income tax expense for the half-year	-	-	3,158	104	3,262
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	3,158	104	3,262
<i>Transactions with owners in their capacity as owners:</i>					
Dividends paid to non-controlling interest	-	-	-	(41)	(41)
Dividends paid (note 9)	-	(6,000)	-	-	(6,000)
Balance at 31 December 2016	<u>25,298</u>	<u>23,867</u>	<u>(20,023)</u>	<u>93</u>	<u>29,235</u>

Refer to note 1 for explanation on comparatives.

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 after income tax expense for the half-year	-	-	5,008	49	5,057
Other comprehensive income for the half-year, net of tax	-	348	-	-	348
Total comprehensive income for the half-year	-	348	5,008	49	5,405
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	189	-	-	189
Dividends paid to non-controlling interest	-	-	-	(63)	(63)
Dividends paid (note 9)	-	-	(3,538)	-	(3,538)
Balance at 31 December 2017	<u>87,161</u>	<u>29,436</u>	<u>(24,525)</u>	<u>38</u>	<u>92,110</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Pengana Capital Group Limited
Statement of cash flows
For the half-year ended 31 December 2017



	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	23,290	23,435
Payments to suppliers, customers and employees (inclusive of GST)	(24,540)	(20,836)
	(1,250)	2,599
Dividends received	153	4
Interest received	82	45
Other revenue	592	335
Proceeds from the sale of financial instruments held at fair value	21,364	-
Purchase of financial instruments held at fair value through profit or loss	(13,844)	-
Income taxes paid	(3,081)	(703)
Net cash from operating activities	4,016	2,280
Cash flows from investing activities		
Proceeds from disposal of interests in equity accounted associates	-	4,518
Proceeds from disposal of interests in subsidiaries	7,732	(553)
Payments for property, plant and equipment	(45)	(177)
Payments for term deposits	(2,672)	-
Net cash from investing activities	5,015	3,788
Cash flows from financing activities		
Payments to unitholders	(11,080)	-
Proceeds from loan repayments	48	-
Dividends paid to company shareholders, net of treasury shares reinvested	(3,603)	(5,930)
Net cash used in financing activities	(14,635)	(5,930)
Net increase/(decrease) in cash and cash equivalents	(5,604)	138
Cash and cash equivalents at the beginning of the financial half-year	20,167	6,347
Effects of exchange rate changes on cash and cash equivalents	(20)	44
Cash and cash equivalents at the end of the financial half-year	14,543	6,529

Refer to note 1 for explanation on comparatives.

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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 during the financial half-year ended 31 December 2017 and are not expected to have any significant impact for the full financial year ending 30 June 2018.

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

Results and comparative information

On 1 June 2017, Pengana Capital Group Limited (previously known as Hunter Hall International Limited ('Hunter Hall')) acquired Pengana Holdings Pty Ltd ('the legal subsidiary' or 'Pengana Holdings'). For accounting purposes, the transaction has been accounted for by applying the principles of reverse acquisition accounting.

These financial statements represent a continuation of Pengana Holdings since that entity is deemed the accounting acquirer pursuant to the accounting standards, and therefore the comparative results represent that of Pengana Holdings' operations and not that of Hunter Hall. Hence, the comparatives* will not compare to the consolidated financial statements of Hunter Hall International Limited published in the prior financial half-year. The current half-year financial statements represent those of the consolidated entity comprising Pengana Capital Group Limited. The comparatives* represents the results of Pengana Holdings only.

* statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows.

Note 2. 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 3. Other income and gains

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Dividends and distributions	309	-
Interest	80	4
Rental income	136	147
Net change in assets attributable to unitholders	(281)	-
Realised and unrealised gains on held for trading financial assets	1,207	-
Other income	220	78
	<u>1,671</u>	<u>229</u>

Note 4. Current assets - trade and other receivables

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Trade receivables	318	25
Accrued income	11,489	4,915
	<u>11,807</u>	<u>4,940</u>

Note 5. Current assets - investments in financial assets at fair value through profit or loss

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Listed shares - held for trading	-	26,768

Refer to note 10 for further information on fair value measurement.

Listed shares – held for trading as at 30 June 2017 were held by one of the groups own managed funds, Hunter Hall High Conviction Equity Trust, a unit trust that the group controlled and as such consolidated for accounting purposes. The group redeemed its interest in the unit trust in September 2017 and deconsolidated from the date control ceased.

Note 6. Non-current assets - intangibles

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Goodwill - at cost	40,627	40,627
Acquired relationships - at cost	26,520	26,520
Less: Accumulated amortisation	(1,403)	(200)
	<u>25,117</u>	<u>26,320</u>
	<u>65,744</u>	<u>66,947</u>

Note 6. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	Goodwill* \$'000	Acquired relationships \$'000	Total \$'000
Balance at 1 July 2017	40,627	26,320	66,947
Amortisation expense	-	(1,203)	(1,203)
Balance at 31 December 2017	<u>40,627</u>	<u>25,117</u>	<u>65,744</u>

* Refer note 11 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Note 7. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Trade payables	173	1,055
Accrued expenses	3,990	12,106
Fund manager profit share	8,099	3,219
GST payable	272	-
Other payables	354	496
	<u>12,888</u>	<u>16,876</u>

Note 8. Equity - contributed equity

	Consolidated			
	31 Dec 2017 Shares	30 Jun 2017 Shares	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Ordinary shares - fully paid	101,477,092	101,477,092	114,381	114,381
Less: Treasury shares	(22,853,722)	(22,853,722)	(27,220)	(27,220)
	<u>78,623,370</u>	<u>78,623,370</u>	<u>87,161</u>	<u>87,161</u>

Note 9. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Fully franked final dividend for the year ended 30 June 2017 of 4.5 cents per ordinary share paid on 28 September 2017 (2016: \$10.74 per Pengana Holdings Pty Ltd ordinary share paid on 18 October 2016 prior to the reverse acquisition)	<u>3,538</u>	<u>6,000</u>

On 27 February 2018, the directors declared a fully franked interim dividend for the half-year ended 31 December 2017 of 6.5 cents per ordinary shares, to be paid on 15 March 2018 to eligible shareholders on the register on 1 March 2018.

Note 10. 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 - 31 Dec 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investments in available-for-sale financial assets	8,001	1,732	-	9,733
Total assets	8,001	1,732	-	9,733
Consolidated - 30 Jun 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
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 half-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.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Investments in available-for-sale financial assets (level 2) are recorded at fair value in accordance with AVCAL (Australian Private Equity and Venture Capital Association Limited) guidelines whereby the last traded price is used, if traded within the last year, otherwise a valuer is appointed. The last trade date for the assets shown was on 27 December 2017.

Note 11. Business combinations

Business combination in the previous year

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.

Note 11. Business combinations (continued)

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

Note 12. Earnings per share

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Profit after income tax	5,057	3,262
Non-controlling interest	(49)	(104)
Profit after income tax attributable to the owners of Pengana Capital Group Limited	5,008	3,158
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	78,623,370	67,166,253
Adjustments for calculation of diluted earnings per share:		
Dilutive impact of 22,853,722 treasury shares accounted for as options	11,738,715	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	90,362,085	67,166,253
	Cents	Cents
Basic earnings per share	6.37	4.70
Diluted earnings per share	5.54	4.70

The weighted average number of ordinary shares excludes 22,853,722 (31 December 2016: 22,853,722) treasury shares.

The weighted average number of ordinary shares for the period ended 31 December 2016 has been adjusted to give effect to capital reorganisation which occurred during the previous financial year.

Note 13. Events after the reporting period

Apart from the dividend declared as disclosed in note 9, no other matter or circumstance has arisen since 31 December 2017 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.

Note 14. 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 27 February 2018. The directors have the power to amend and reissue the financial statements.

Pengana Capital Group Limited
Directors' declaration
31 December 2017



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2017 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in dark ink, appearing to read "W Negus", written over a horizontal line.

Warwick Negus
Chairman

27 February 2018
Sydney

A handwritten signature in dark ink, appearing to read "Russel Pillemer", written over a horizontal line.

Russel Pillemer
Chief Executive Officer

Level 17, 383 Kent Street
Sydney NSW 2000

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Independent Auditor's Review Report To the Members of Pengana Capital Group Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Pengana Capital Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Pengana Capital Group Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial reporting*.

Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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As the auditor of Pengana Capital Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Adam Smith
Partner - Audit & Assurance

Sydney, 27 February 2018