

K2 ASSET MANAGEMENT HOLDINGS LTD

AND CONTROLLED ENTITIES

ABN 59 124 636 782

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

This half-year financial report is to be read
in conjunction with the financial report for
the year ended 30 June 2015

K2 Asset Management Holdings Ltd and Controlled Entities
ABN: 59 124 636 782

FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

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DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entity consisting of K2 Asset Management Holdings Ltd and the entities it controlled, K2 Asset Management Ltd and KII Pty Ltd, for the half-year ended 31 December 2015 and auditor's review report thereon. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

DIRECTORS

The names of the directors in office at any time during or since the end of the half-year are:

Campbell Neal	(Managing Director and Chief Executive Officer)
Mark Newman	(Chief Investment Officer and Executive Director)
Hollie Wight	(Chief Financial Officer and Executive Director)
Robert Hand	(Non-Executive Director)

The directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS

The consolidated profit of the group for the half-year after providing for income tax amounted to \$2,286,119 (2014: \$8,326,961).

Revenue from management and performance fees was \$6,324,216 (2014: \$6,222,876) and \$1,015,665 (2014: \$9,717,334) respectively. Total revenue amounted to \$7,770,010 (2014: \$16,394,209). Revenue decreased from the prior comparative period due to less performance fees being payable by the K2 Funds to K2 Asset Management Ltd in its capacity as investment manager. Please refer to the Condensed Consolidated Statement of Comprehensive Income on page 6 for further details.

The table below lists the Funds for which K2 Asset Management Ltd acts as investment manager along with their respective financial year to date performance and Funds Under Management (FUM) as at 31 December 2015:

K2 Funds	Financial year fund performance*	Financial year index performance #	FUM \$million
K2 Australian Absolute Return Fund	-4.26%	+0.45%	383.8 AUD
K2 Select International Absolute Return Fund	-3.10%	+0.47%	215.2 AUD
K2 Asian Absolute Return Fund	-13.42%	-7.39%	77.8 AUD
K2 Global High Alpha Fund	+2.82%	+0.47%	62.5 AUD
K2 Global Equities Fund ⁽¹⁾	-2.00%	-5.43%	45.5 AUD
K2 Australian Small Cap Fund ⁽²⁾	+10.89%	+6.98%	26.1 AUD
Total			810.9 AUD

The above information is unaudited. * Year to date figures are based on the 6 months to 31 December 2015. # The K2 Australian Absolute Return Fund is compared to the All Ordinaries Accumulation Index, the K2 Asian Absolute Return Fund is compared to the MSCI AC Asia Pacific ex Japan TR Net Index (AUD), the K2 Select International Absolute Return Fund, the K2 Global High Alpha Fund and the K2 Global Equities Fund are compared to the MSCI AC World TR Net Index (AUD) and the K2 Australian Small Cap Fund is compared to the S&P/ASX Small Ordinaries Accumulation Index. (1) The K2 Global Equities Fund was admitted to trading status on the ASX under the ASX AQUA Rules and commenced operations on 20 July 2015. (2) On 15 December 2015, the K2 Australian Small Cap Fund was admitted to trading status on the ASX under the ASX AQUA Rules. Prior to this date, the K2 Australian Small Cap Fund was unlisted.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the consolidated entity's state of affairs during the financial period.

DIRECTORS' REPORT (CONT'D)

ROUNDING OF AMOUNTS

The amounts contained in the report and in the financial report have been rounded to the nearest dollar (where rounding is applicable).

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review of the half-year is provided with this report.

Signed in accordance with a resolution of the directors.



Campbell Neal
Director



Hollie Wight
Director

Melbourne

10 February 2016

**K2 ASSET MANAGEMENT HOLDINGS LTD
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF K2 ASSET MANAGEMENT HOLDINGS LTD**

In relation to the independent auditor's review for the half-year ended 31 December 2015, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of K2 Asset Management Holdings Ltd and the entities it controlled during the period.



K L BYRNE
Partner

10 February 2016



PITCHER PARTNERS
Melbourne

K2 Asset Management Holdings Ltd and Controlled Entities
ABN: 59 124 636 782

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Notes	Half-year	
		31 December 2015 \$	31 December 2014 \$
Revenue	3	7,770,010	16,394,209
Employee benefits expense	4	(3,048,977)	(3,310,157)
Depreciation and amortisation expenses		(19,717)	(21,411)
Marketing expenses	4	(553,330)	(396,131)
Occupancy expenses		(376,614)	(361,250)
Professional expenses		(161,381)	(208,613)
Technology expenses		(108,792)	(89,359)
Other expenses		(28,847)	(25,142)
		(4,297,658)	(4,412,063)
Profit before income tax		3,472,352	11,982,146
Income tax expense		(1,186,233)	(3,655,185)
Total comprehensive income for the half-year		2,286,119	8,326,961
Basic earnings per share (cents per share)		0.98	3.57
Diluted earnings per share (cents per share)		0.98	3.57

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

K2 Asset Management Holdings Ltd and Controlled Entities
ABN: 59 124 636 782

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	31 December 2015	30 June 2015
	\$	\$
Current Assets		
Cash and cash equivalents	8,985,379	22,540,562
Receivables	2,420,852	24,066,431
Other current assets	223,357	175,308
Total Current Assets	11,629,588	46,782,301
Non-current Assets		
Plant and equipment	94,934	70,772
Intangible assets	2,995	3,278
Deferred tax assets	826,420	1,526,660
Other non-current assets	27,000	27,000
Total Non-current Assets	951,349	1,627,710
Total Assets	12,580,937	48,410,011
Current Liabilities		
Trade and other payables	362,196	9,227,279
Current tax payable	9,148	6,783,746
Provisions	1,787,294	12,786,110
Total Current Liabilities	2,158,638	28,797,135
Non-current Liabilities		
Provisions	972,756	1,937,236
Other non-current liabilities	206,662	231,091
Total Non-current Liabilities	1,179,418	2,168,327
Total Liabilities	3,338,056	30,965,462
Net Assets	9,242,881	17,444,549
Equity		
Share capital	2,083,675	2,061,513
Retained earnings	7,159,206	15,383,036
Total Equity	9,242,881	17,444,549

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

K2 Asset Management Holdings Ltd and Controlled Entities
ABN: 59 124 636 782

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

2014	Contributed equity \$	Retained earnings \$	Total Equity \$
Balance as at 1 July 2014	2,037,247	10,516,437	12,553,684
Profit for the period	-	8,326,961	8,326,961
Total comprehensive income for the half-year	-	8,326,961	8,326,961
Transactions with owners in their capacity as owners			
Proceeds from share issue	-	-	-
Dividends paid	-	(4,670,116)	(4,670,116)
Total transactions with owners in their capacity as owners	-	(4,670,116)	(4,670,116)
Balance as at 31 December 2014	2,037,247	14,173,282	16,210,529
2015	Contributed equity \$	Retained earnings \$	Total Equity \$
Balance as at 1 July 2015	2,061,513	15,383,036	17,444,549
Profit for the period	-	2,286,119	2,286,119
Total comprehensive income for the half-year	-	2,286,119	2,286,119
Transactions with owners in their capacity as owners			
Proceeds from share issue	22,162	-	22,162
Dividends paid	-	(10,509,949)	(10,509,949)
Total transactions with owners in their capacity as owners	22,162	(10,509,949)	(10,487,787)
Balance as at 31 December 2015	2,083,675	7,159,206	9,242,881

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

K2 Asset Management Holdings Ltd and Controlled Entities
ABN: 59 124 636 782

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

		Half-year	
		31 December 2015	31 December 2014
		\$	\$
Cash flow from operating activities			
Receipts from customers	9	41,934,224	8,033,981
Payments to suppliers and employees	9	(37,828,671)	(5,030,941)
Interest received		131,238	168,010
Income tax paid		(7,260,591)	(2,739,223)
Net cash (used in)/provided by operating activities		(3,023,800)	431,827
Cash flow from investing activities			
Payment for plant and equipment		(43,596)	(18,792)
Net cash used in investing activities		(43,596)	(18,792)
Cash flow from financing activities			
Proceeds from share issue		22,162	-
Dividends paid		(10,509,949)	(4,670,116)
Net cash used in financing activities		(10,487,787)	(4,670,116)
Net decrease in cash and cash equivalents held		(13,555,183)	(4,257,081)
Cash and cash equivalents at beginning of the half-year		22,540,562	16,470,090
Cash and cash equivalents at end of the half-year		8,985,379	12,213,009

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This condensed consolidated half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2015 and any public announcements made by K2 Asset Management Holdings Ltd during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

K2 Asset Management Holdings Ltd is a for-profit entity for the purpose of preparing the financial statements.

The half-year financial report was authorised for issue by the directors as at the date of the directors' report.

(a) Basis of preparation of the financial report

This condensed consolidated half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, as appropriate for for-profit entities, and the *Corporations Act 2001*. Compliance with AASB 134, as appropriate for for-profit entities, ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half-year financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2015 and the corresponding half-year.

(b) Summary of significant accounting policies

The half-year condensed consolidated financial report has been prepared using the same accounting policies as used in the annual financial report for the year ended 30 June 2015.

(c) Principles of consolidation

The condensed consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and the entities which K2 Asset Management Holdings Ltd controlled, K2 Asset Management Ltd and KII Pty Ltd, during the half-year and at balance date.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(d) Fair values

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Condensed Consolidated Statement of Financial Position and the Notes to the Condensed Consolidated Financial Statements.

(e) Comparatives

Where required, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 2: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 31 December 2015 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 31 December 2015, of the consolidated entity or
- (b) the results of those operations, or
- (c) the state of affairs, in financial periods subsequent to 31 December 2015, of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 3: REVENUE

	Half-year	
	31 December 2015 \$	31 December 2014 \$
Revenues from continuing operations		
Management fees	6,324,216	6,222,876
Performance fees	1,015,665	9,717,334
Interest	153,705	170,523
Other	276,424	283,476
	<u>7,770,010</u>	<u>16,394,209</u>

NOTE 4: SIGNIFICANT ITEMS

	Half-year	
	31 December 2015 \$	31 December 2014 \$
Employee Benefits		
Short-term benefits	2,854,302	3,176,899
Long-term benefits	194,675	133,258
	<u>3,048,977</u>	<u>3,310,157</u>
Marketing expenses		
Advertising	266,281	224,410
K2 Global Equities Fund early investment payment	173,595	-
Travel expenses	92,385	153,218
Printing and stationery	21,069	18,503
	<u>553,330</u>	<u>396,131</u>

NOTE 5: ISSUANCES OF EQUITY

In October 2015, 33,316 Ordinary Shares were issued at market value. This resulted in an increase in share capital of \$22,162. There were no issuances of equity during the half-year period ending 31 December 2014.

NOTE 6: SEGMENT INFORMATION

The consolidated entity operates solely within Australia within the funds management business segment.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 7: DIVIDENDS ON ORDINARY SHARES

	Half-year	
	31 December 2015	31 December 2014
	\$	\$
(a) Dividends paid		
Dividend paid at 4.5 cents per share (2014: 2.0 cents) 100% franked (2014: 100% franked) at the Australian tax rate of 30%	10,509,949	4,670,116
(b) Dividends declared after half-year end		
Proposed dividends not recognised for the half-year ended 31 December 2015 at 1.0 cent per share (2014: 4.0 cents) 100% franked (2014: 100% franked) at the Australian tax rate of 30%	2,335,877	9,342,176

NOTE 8: RELATED PARTIES

The condensed consolidated half-year financial statements includes the financial statements of K2 Asset Management Holdings Ltd and its 100% (2014: 100%) owned subsidiaries K2 Asset Management Ltd and KII Pty Ltd. KII Pty Ltd was registered on 12 August 2015 and as of the date of this report has had no operations.

K2 Asset Management Ltd provides investment management services to related party unit trusts, the K2 Australian Absolute Return Fund, K2 Select International Absolute Return Fund, K2 Asian Absolute Return Fund, K2 Global High Alpha Fund, K2 Global Equities Fund and K2 Australian Small Cap Fund. K2 previously provided investment management services to the K2 International Opportunities Fund, prior to its closure on 10 March 2015. K2 Asset Management Ltd is entitled to receive payments from the funds where it provides investment management services including management fees, administration or responsible entity fees and in some instances a performance fee based upon the relevant fund's investment return over and above a specified benchmark. Total related party revenue of \$7,616,305 (2014: \$16,223,686) has been recognised in the Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2015.

NOTE 9: INVESTOR FUND APPLICATIONS

On 20 July 2015, the K2 Global Equities Fund was quoted on the ASX under the ASX AQUA rules. As part of this process, K2 Asset Management Ltd received \$11,839,883 in investor applications during the period. This amount is included in receipts from customers of \$41,934,224 in the condensed consolidated statement of cash flows for the half-year. This money, along with amounts received prior to 30 June 2015, totalling \$18,590,801, was transferred to the Fund prior to the commencement of operations and are included in payments to suppliers and employees of \$37,828,671 in the condensed consolidated statement of cash flows for the half-year.

NOTE 10: CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 11: ECONOMIC ENTITY DETAILS

The registered office of the company is:

K2 Asset Management Holdings Ltd
Level 32, 101 Collins Street
Melbourne VIC 3000

Phone: 03 9691 6111

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 6 to 13 in accordance with the *Corporations Act 2001*:

- (a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2015 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that K2 Asset Management Holdings Ltd will be able to pay its debts as and when they become due and payable.

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



Campbell Neal
Director



Hollie Wight
Director

Melbourne
10 February 2016

**K2 ASSET MANAGEMENT HOLDINGS LTD
ABN 59 124 636 782
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
K2 ASSET MANAGEMENT HOLDINGS LTD**

We have reviewed the accompanying half-year financial report of K2 Asset Management Holdings Ltd and controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2015, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the half year.

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 consolidated entity's financial position as at 31 December 2015 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*. As the auditor of K2 Asset Management Holdings Ltd, 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*.

**K2 ASSET MANAGEMENT HOLDINGS LTD
ABN 59 124 636 782
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
K2 ASSET MANAGEMENT HOLDINGS LTD**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of K2 Asset Management Holdings Ltd and controlled entities is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



K L BYRNE
Partner

10 February 2016



PITCHER PARTNERS
Melbourne