

K2 ASSET MANAGEMENT HOLDINGS LTD

AND CONTROLLED ENTITIES

ABN 59 124 636 782

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

This half-year financial report is to be read  
in conjunction with the financial report for  
the year ended 30 June 2016

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

FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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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, KII Pty Ltd & Trusuper Pty Ltd, for the half-year ended 31 December 2016 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	Chief Executive Officer and Managing Director
Mark Newman	Chief Investment Officer and Executive Director
Hollie Wight	Chief Financial Officer and Executive Director
Robert Hand	Non-Executive Director
Matthew Lawler	Non-Executive Director (appointed 27 September 2016)

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 \$5,523,418 (2015: \$2,286,119).

Revenue from management and performance fees was \$5,252,962 (2015: \$6,324,216) and \$5,909,225 (2015: \$1,015,665) respectively. Total revenue amounted to \$11,454,797 (2015: \$7,770,010). Revenue increased from the prior comparative period due to an increase in performance fees paid or 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 2016:

K2 Funds	Financial year to date fund performance*	Financial year to date index performance #	FUM \$million
K2 Australian Absolute Return Fund	+9.41%	+9.94%	361.3 AUD
K2 Select International Absolute Return Fund	+11.08%	+9.57%	113.8 AUD
K2 Asian Absolute Return Fund	+5.87%	+7.24%	49.7 AUD
K2 Global High Alpha Fund	+6.25%	+9.57%	42.6 AUD
K2 Global Equities Fund	+6.39%	+9.57%	35.4 AUD
K2 Australian Small Cap Fund	+2.00%	+5.84%	21.0 AUD
<b>Total</b>			<b>623.7 AUD</b>

The above information is unaudited. \* Year to date figures are based on the 6 months to 31 December 2016. # 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.

### 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

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and the financial report have been rounded to 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* 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

8 February 2017

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

**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 2016, 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 APES 110 *Code of Ethics for Professional Accountants*.

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



**B J BRITTEN**  
Partner

8 February 2017



**PITCHER PARTNERS**  
Melbourne

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Notes	Half-year	
		31 December 2016 \$	31 December 2015 \$
Revenue	3	11,454,797	7,770,010
Employee benefits expense	4	(2,777,602)	(3,048,977)
Depreciation and amortisation expenses		(25,992)	(19,717)
Marketing expenses	4	(227,147)	(553,330)
Occupancy expenses		(311,335)	(376,614)
Professional expenses		(122,674)	(161,381)
Technology expenses		(79,633)	(108,792)
Other expenses		(22,179)	(28,847)
		<u>(3,566,562)</u>	<u>(4,297,658)</u>
<b>Profit before income tax</b>		<u>7,888,235</u>	<u>3,472,352</u>
Income tax expense		(2,364,817)	(1,186,233)
<b>Total comprehensive income for the half-year</b>		<u><u>5,523,418</u></u>	<u><u>2,286,119</u></u>
Basic earnings per share (cents per share)		2.36	0.98
Diluted earnings per share (cents per share)		2.36	0.98

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 2016

	31 December 2016	30 June 2016
	\$	\$
<b>Current Assets</b>		
Cash and cash equivalents	9,458,977	9,601,745
Receivables	7,112,160	1,229,943
Current tax receivable	-	102,785
Other current assets	166,039	175,626
<b>Total Current Assets</b>	16,737,176	11,110,099
<b>Non-current Assets</b>		
Plant and equipment	74,949	89,927
Intangible assets	2,839	2,711
Deferred tax assets	625,505	674,469
Other non-current assets	427,000	27,000
<b>Total Non-current Assets</b>	1,130,293	794,107
<b>Total Assets</b>	17,867,469	11,904,206
<b>Current Liabilities</b>		
Trade and other payables	1,137,909	424,575
Current tax payable	1,922,928	-
Provisions	1,501,382	2,483,742
<b>Total Current Liabilities</b>	4,562,219	2,908,317
<b>Non-current Liabilities</b>		
Provisions	361,754	375,313
Other non-current liabilities	145,691	178,249
<b>Total Non-current Liabilities</b>	507,445	553,562
<b>Total Liabilities</b>	5,069,664	3,461,879
<b>Net Assets</b>	12,797,805	8,442,327
<b>Equity</b>		
Share capital	2,083,675	2,083,675
Retained earnings	10,714,130	6,358,652
<b>Total Equity</b>	12,797,805	8,442,327

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 2016

<b>2016</b>	<b>Contributed equity \$</b>	<b>Retained earnings \$</b>	<b>Total Equity \$</b>
Balance as at 1 July 2016	2,083,675	6,358,652	8,442,327
Profit for the period	-	5,523,418	5,523,418
Total comprehensive income for the half-year	-	5,523,418	5,523,418
<b>Transactions with owners in their capacity as owners</b>			
Proceeds from share issue	-	-	-
Dividends paid	-	(1,167,940)	(1,167,940)
<b>Total transactions with owners in their capacity as owners</b>	-	(1,167,940)	(1,167,940)
<b>Balance as at 31 December 2016</b>	<b>2,083,675</b>	<b>10,714,130</b>	<b>12,797,805</b>
<b>2015</b>	<b>Contributed equity \$</b>	<b>Retained earnings \$</b>	<b>Total Equity \$</b>
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
<b>Transactions with owners in their capacity as owners</b>			
Proceeds from share issue	22,162	-	22,162
Dividends paid	-	(10,509,949)	(10,509,949)
<b>Total transactions with owners in their capacity as owners</b>	<b>22,162</b>	<b>(10,509,949)</b>	<b>(10,487,787)</b>
<b>Balance as at 31 December 2015</b>	<b>2,083,675</b>	<b>7,159,206</b>	<b>9,242,881</b>

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 2016

	Notes	Half-year	
		31 December 2016 \$	31 December 2015 \$
<b>Cash flow from operating activities</b>			
Receipts from customers	9	6,596,193	41,934,224
Payments to suppliers and employees	9	(5,347,696)	(37,828,671)
Interest received		77,957	131,238
Income tax paid		(290,140)	(7,260,591)
<b>Net cash provided by/(used in) operating activities</b>		1,036,314	(3,023,800)
<b>Cash flow from investing activities</b>			
Payment for plant and equipment		(10,722)	(43,596)
Payment for trademarks		(420)	-
<b>Net cash used in investing activities</b>		(11,142)	(43,596)
<b>Cash flow from financing activities</b>			
Proceeds from share issue		-	22,162
Dividends paid		(1,167,940)	(10,509,949)
<b>Net cash used in financing activities</b>		(1,167,940)	(10,487,787)
<b>Net decrease in cash and cash equivalents held</b>		(142,768)	(13,555,183)
Cash and cash equivalents at beginning of the half-year		9,601,745	22,540,562
<b>Cash and cash equivalents at end of the half-year</b>		9,458,977	8,985,379

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## 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 2016 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.

### (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 2016.

### (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, KII Pty Ltd and Trusuper 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 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 2016 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 31 December 2016, of the consolidated entity or
- (b) the results of those operations, or
- (c) the state of affairs, in financial periods subsequent to 31 December 2016, of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 3: REVENUE

	Half-year	
	31 December 2016 \$	31 December 2015 \$
<b>Revenues from continuing operations</b>		
Management fees	5,252,962	6,324,216
Performance fees	5,909,225	1,015,665
Interest	58,396	153,705
Other	234,214	276,424
	<u>11,454,797</u>	<u>7,770,010</u>

NOTE 4: SIGNIFICANT ITEMS

	Half-year	
	31 December 2016 \$	31 December 2015 \$
<b>Employee Benefits</b>		
Short-term benefits	2,597,438	2,659,250
Long-term benefits	(13,557)	194,675
Superannuation contributions	193,721	195,052
	<u>2,777,602</u>	<u>3,048,977</u>
<b>Marketing expenses</b>		
Advertising	144,893	266,281
K2 Global Equities Fund early investment payment	-	173,595
Travel expenses	68,351	92,385
Printing and stationery	13,903	21,069
	<u>227,147</u>	<u>553,330</u>

NOTE 5: ISSUANCES OF EQUITY

There were no issuances of equity during the half-year period ending 31 December 2016. During the half-year period ending 31 December 2015, 33,316 Ordinary Shares were issued at market value in October 2015. This resulted in an increase in share capital of \$22,162.

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 2016

NOTE 7: DIVIDENDS ON ORDINARY SHARES

	Half-year	
	31 December 2016	31 December 2015
	\$	\$
<b>(a) Dividends paid</b>		
Dividend paid at 0.5 cents per share (2015: 4.5 cents) 100% franked (2015: 100% franked) at the Australian tax rate of 30%	1,167,940	10,509,949
<b>(b) Dividends declared after half-year end</b>		
Proposed dividends not recognised for the half-year ended 31 December 2016 at 2.0 cent per share (2015: 1.0 cents) 100% franked (2015: 100% franked) at the Australian tax rate of 30%	4,671,754	2,335,877

NOTE 8: RELATED PARTIES

The condensed consolidated half-year financial statements includes the financial statements of K2 Asset Management Holdings Ltd and its 100% (2015: 100%) owned subsidiaries K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd. KII Pty Ltd was registered on 12 August 2015 and Trusuper Pty Ltd was registered on 19 August 2016. As of the date of this report these entities have 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 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 \$11,396,401 (2015: \$7,616,305) has been recognised in the Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2016.

As at 31 December 2016, K2 Asset Management has a current receivable of \$7,084,700 (2015: \$2,298,892) for investment management services provided to the K2 Funds.

As at 31 December 2016, K2 Asset Management has a current liability of \$320,137 (2015: nil) for money received on behalf of the K2 Funds from the Australian Taxation Office for Reduced Input Tax Credits. As part of the operations of the K2 Funds this money is normally returned to the Funds within 30 days of receipt from the Australian Taxation Office.

As at 31 December 2016, K2 Asset Management has a non-current receivable of \$400,000 (2015: nil) for loans made to employees to purchase shares in K2 Asset Management Holdings Ltd. The loans have been made to employees under a formal loan agreement and are expected to be repaid over a period of time using the proceeds of performance bonuses and dividend payments and share sales relating to the shares purchased. Any outstanding balance must be repaid to K2 Asset Management Ltd upon the employees ceasing to be employed by the company. The loans are interest free and are unsecured.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## NOTE 9: INVESTOR FUND APPLICATIONS

During the half-year ended 31 December 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 the receipts from customers of \$41,934,224 in the Condensed Consolidated Statement of Cash Flows for the half-year ended 31 December 2015. This money, along with the amounts received prior to 30 June 2015, totalling \$18,590,801 was transferred to the Fund prior to the commencement of its operations on 20 July 2015 and are included in the payments to suppliers and employees of \$37,828,671 in the Condensed Consolidated Statement of Cash Flows for the half-year ended 31 December 2015.

## NOTE 10: CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2016.

## 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:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 6 to 13, are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2016 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds, at the date of this declaration, 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  
8 February 2017

**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 2016, 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 2016 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 2016 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*.



B J BRITTEN  
Partner

8 February 2017



PITCHER PARTNERS  
Melbourne