

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

FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2018

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

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## CHAIRMAN'S REPORT

The 2018 financial year saw equity markets deliver investors another 12 months of strong returns as global share markets continued to rise. Investor uncertainty and market volatility experienced on a domestic front could not seem to dampen equity market momentum, with the All Ordinaries Accumulation Index rising 13.7%. The market was buoyed by seemingly entrenched low interest rates and healthy employment figures delivering its sixth consecutive positive year. Like always, equity markets need to be dissected to ascertain where the gains and losses were derived. At the sector level, healthcare was up 26.6%, materials gained 29.7%, consumer staples was up 30.3%, information technology rose 33.4% and energy gained 41.9%. Meanwhile, telecommunications was down 30.7%, utilities fell 0.6% and banks receded 1.1%.

On a global front, the US/China trade war dominated the second half of the year and was the catalyst behind China's share market falling 20.0% to 30 June from its highs in January. The ongoing political drama that is Donald Trump's presidency fuelled uncertainty, not only around global security but also equity markets, as he navigated the US/Korean relationship. Strong economic data out of the US throughout the year however provided a healthy 14.4% market return from the US for the full period.

All K2 Funds provided unitholders with strong absolute returns for the 2018 financial year as detailed in the table below:

K2 Fund	Financial year fund performance*	Since inception fund performance (p.a.)*	Since inception index performance (p.a.) #	FUM \$million
K2 Australian Absolute Return Fund	+13.1%	+11.5%	+8.6%	246.4 AUD
K2 Select International Absolute Return Fund	+6.4%	+10.3%	+7.0%	56.7 AUD
K2 Asian Absolute Return Fund	+6.5%	+9.7%	+6.6%	33.9 AUD
K2 Global High Alpha Fund	+10.5%	+17.6%	+11.5%	36.4 AUD
K2 Global Equities Fund (KII)	+9.7%	+3.0%	+7.4%	17.2 AUD
K2 Australian Small Cap Fund (KSM)	+8.2%	+11.4%	+10.0%	14.0 AUD
<b>Total</b>				<b>404.7 AUD</b>

The above information is unaudited. \*Financial year performance figures are based on a financial year ended 30 June and are net of all fees. # The K2 Australian Absolute Return Fund is compared to the All Ordinaries Accumulation Index, the K2 Select International Absolute Return Fund is compared to the MSCI World AC Index (AUD), the K2 Global High Alpha Fund is compared to the MSCI World AC Index (AUD), the K2 Global Equities Fund is compared to the MSCI World AC Index (AUD) and the K2 Australian Small Cap Fund is compared to the Small Ordinaries Accumulation Index. The K2 Asian Absolute Return Fund is compared to the MSCI Asia ex Japan Index (AUD). Prior to 1 October 2017, the K2 Asian Absolute Return Fund was compared to the MSCI Asia Pacific ex Japan Index (AUD). FUM figures are pre distributions payable for 30 June 2018.

In line with the Fund performance returns set out above, K2 received performance fees totalling \$7.6 million for the year and management fees totalled \$5.9 million, bringing total income to \$14.1 million and profit after tax to \$5.2 million.

All expenses are reviewed and monitored consistently to ensure cost efficiencies are achieved throughout the business. Expenses decreased in the 2018 financial year; with the noticeable difference being that eligibility criteria for the enactment of the bonus scheme was not achieved. K2's balance sheet remains strong with excess cash reserves and no borrowings.

Shareholders received a fully franked dividend of 0.5 cent per share in February. No dividend has been declared for the full year end.

2018 was a year for building foundations for the years ahead. Implementing a structured strategy of growth, K2 continues to focus on its distribution strategy and growing funds under management (FUM). The past 12 months have seen a number of long term developmental requirements met which assist in achieving future FUM targets. These include continuing to work with rating houses to articulate our message and further enhance distribution channels available to the K2 Funds. The K2 Australian Small Cap Fund received its first consultant rating in April 2018 with a 'Recommended' rating from Lonsec. K2 has also been working with some large financial institutions to position the K2 Funds on their approved product lists. K2 continued to analyse our product offering and make adjustments where we saw necessary.

Rounding out the fee analysis undertaken in the prior year K2 has adjusted the management and performance fees for the K2 Asian Fund which is now aligned with our other international products. Other minor adjustments were also made to the way expenses are recovered from a number of Funds which assist in placing those Funds in a competitive price bracket. This new fee structure was implemented on 2 July 2018.

We acknowledge that growing FUM will require strong relationships and partnering to achieve long term success. K2 is partnering with some industry leaders with the aim of accessing a new target market and providing increased accessibility to our suite of products. Our distribution team continue to educate investors as to how K2 is differentiated from other investment products and why our Funds need to play a role in their respective investment portfolios.

## CHAIRMAN'S REPORT (CONT'D)

K2's primary focus as always continues to be on investment returns for our unitholders. We believe that if we provide consistent long term outperformance and protect unitholder capital then the value of our offering will be rewarded with support from both retail and institutional market participants.

The global market outlook is far from certain with rising global bond yields signalling the start of more normalised levels of interest rates and growth. The interest rate hike cycle is well underway in the US and has commenced in the UK. It is only a question of when, not if, Australia will experience this same fiscal tightening. Domestically, company valuations are at lofty highs trading at large premiums to their average 10 year PE. Strong inflow into ETFs and other passive index-driven strategies, since the end of the GFC, has been a significant driver in the sustained appreciation of equities. With investors entering the market in this passive manner, the valuation call on equities has arguably moved away from active managers assessing true stock valuations, to being determined largely by cash flow and momentum. Without strong sustainable future growth these valuations will no doubt be tested. The fallout from the Banking Royal Commission will come to fruition in the year ahead and it is yet to be seen just how restrictive the new regulatory environment will be on historical blue chip financial equities. The predicted unravelling of the domestic housing market and the effect this will have on severely debt-dependent households is also expected to dominate headlines in the coming 12 months.

As we enter our 20<sup>th</sup> year of operation, navigating the day to day noise and understanding the complexity of equity markets is what our unitholders have come to expect from our investment managers. K2's ability to deliver investment outperformance over the long term is evidenced by our track record through a number of investment cycles. This is not achieved by chasing momentum or joining the pack investing in overvalued equities, but rather staying true to label and continuing to seek out companies with attractive yields and appropriate valuations.

Our investment managers enter the new financial year maintaining a conservative and vigilant stance.



**Campbell Neal**  
**Chairman**

Melbourne  
28 August 2018

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

## DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity consisting of K2 Asset Management Holdings Ltd and the entities it controlled, K2 Asset Management Ltd (the Company), KII Pty Ltd and Trusuper Pty Ltd, for the financial year ended 30 June 2018 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

### DIRECTORS

The following persons were Directors of the consolidated entity during the whole financial year and up to the date of this report unless otherwise noted:

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)

No directors are or have been directors of any other listed entity in the last 3 years.

### PRINCIPAL ACTIVITIES

K2 Asset Management Holdings Ltd is the holding company of K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd. The principal activity of K2 Asset Management Ltd during the financial year was funds management. As of the date of this report, KII Pty Ltd and Trusuper Pty Ltd have had no operations.

### RESULTS

The consolidated profit before tax attributable to the members of K2 Asset Management Holdings Ltd was \$7,204,842 (2017: \$8,721,663). The consolidated profit after tax attributable to members was \$5,220,070 (2017: \$6,099,229). Please refer to the Consolidated Statement of Comprehensive Income on page 22 for further information.

### REVIEW OF OPERATIONS

The consolidated entity continued to engage in its principal activity of funds management, the results of which are disclosed within the attached financial statements. For details on the investment funds managed by K2 Asset Management Ltd in terms of fund performance and funds under management please refer to the Chairman's Report on page 3.

Revenue from management and performance fees was \$5,904,284 (2017: \$9,334,426) and \$7,641,846 (2017: \$7,280,556) respectively. Total revenue amounted to \$14,075,362 (2017: \$17,193,534). Please refer to the Consolidated Statement of Comprehensive Income on page 22 for further details.

### DIVIDENDS

Dividends paid or declared by K2 Asset Management Holdings Ltd to members since the end of the previous financial year are as follows:

Declared and paid during the 2018 financial year	Cents per share	Total amount	Date of payment
Interim dividend (100% franked) – February 2018	0.50	1,202,105	February 2018
Final dividend (100% franked) – August 2017	0.25	601,052	August 2017

No dividend was proposed by directors after balance sheet date.

Declared after 30 June 2018	Cents per share	Total amount	Date of payment
Final dividend (100% franked) – August 2018	-	-	NA

### 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)

### AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### LIKELY DEVELOPMENTS

K2 Asset Management Holdings Ltd continues to pursue its business objectives, by continuing to be the holding company of the K2 Asset Management Ltd funds management business. Operating strategies are not expected to change in the foreseeable future.

### ROUNDING OF AMOUNTS

The parent entity and the consolidated entity have applied relief available under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest dollar.

### ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant Commonwealth or State environmental regulations or laws.

### AUDITOR

Pitcher Partners continues to act as Auditor of the consolidated entity since being appointed in May 2008.

### 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 audit for the financial year is provided with this report.

### NON-AUDIT SERVICES

Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are approved by the board and detailed below. The directors are satisfied, given the nature and scope of the non-audit services that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Amounts paid or payable to the auditors of the consolidated entity for non-audit services provided during the year:	2018 \$	2017 \$
Tax consulting services	-	1,810
Other consulting services	14,200	1,800

### INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During or since the end of the financial year, the consolidated entity has entered into a commercial agreement to indemnify and paid premiums to insure the directors and officers of the company and the key management of the company.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

### PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

### INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The qualifications, experience and special responsibilities of each person who has been a director of K2 Asset Management Holdings Ltd at any time during or since the end of the financial year are provided below, together with details of the company secretary.

#### **Campbell William Neal** BSc/LLB

Campbell has been the Managing Director and Chief Executive Officer of K2 Asset Management Holdings Ltd and K2 Asset Management Ltd since their formation. Before co-founding K2 Asset Management Ltd in 1999 Campbell worked at Bankers Trust Australia. He was appointed Executive Vice President in 1997 and was responsible for Australian institutional equity sales in Melbourne and later throughout Asia. Campbell has over 33 years' experience in both stockbroking and funds management.

## DIRECTORS' REPORT (CONT'D)

### **Mark Sydney Newman** BEcon

Mark has been Chief Investment Officer and Executive Director of K2 Asset Management Holdings and K2 Asset Management Ltd since their formation. Mark has 33 years' experience within the Asian economy including ten years abroad with HSBC Asset Management and later the Abu Dhabi Investment Authority. Mark progressed from Senior Investment Manager to Director of HSBC Asset Management Hong Kong Limited before moving to Abu Dhabi where he was responsible for managing assets across 14 markets in the Asia Pacific region. Mark co-founded K2 Asset Management Ltd in 1999.

### **Hollie Anne Wight** Bbus(Acc)(Hons), CPA

Hollie has been an Executive Director and Chief Financial Officer of K2 Asset Management Ltd since April 2005 after joining K2 in 2000. Prior to K2 Hollie worked at PricewaterhouseCoopers within their assurance and business advisory services division. Hollie was appointed Company Secretary effective 5 September 2014.

### **Robert Clive Hand** BEcon, MBA

Robert joined K2 in October 2001 as Executive Director and Senior Portfolio Manager. Joining the finance industry in 1986 with National Australia Bank, Robert commenced in the bank's fund management company in 1989 working on Asian portfolios and subsequently European and Australian portfolios, ultimately as head of Australian equities. In October 2013, Robert resigned as an Executive Director and commenced a Non-executive role with the board of K2.

### **Matthew William Lawler** DipFinPlan GradDipFinMkts

Matthew joined K2 in September 2016 as a Non-executive director. Matthew has over 31 years' experience in the financial services industry and has a deep understanding of funds management distribution, investment platforms and financial planning. Matthew is currently Executive Director and Head of Advice and Distribution at Loan Market Group. Prior to this role, Matthew was CEO of Wealth Management at Yellow Brick Road and held senior executive roles at MLC and NAB.

## DIRECTORS' MEETINGS

The number of meetings held by the board of directors during the financial year and the numbers of meetings attended by each director during the financial year were:

<b>K2 Asset Management Holdings Ltd</b>	<b>Eligible to attend <sup>(1)</sup></b>	<b>Attended</b>
Campbell Neal	8	8
Mark Newman	8	7
Hollie Wight	8	8
Robert Hand	8	6
Matthew Lawler	8	6

<sup>(1)</sup> In addition to the 8 meetings, the directors of K2 Asset Management Holdings Ltd passed circular written resolutions on 2 occasions during the financial year. All eligible directors were signatories to these resolutions.

## SHARES ISSUED ON THE EXERCISE OF OPTIONS

No shares were issued during or since the end of the financial year as a result of the exercise of options. No options have been issued over issued or unissued share capital of the consolidated group.

## AUDITED REMUNERATION REPORT

### REMUNERATION POLICIES

K2 Asset Management aims to provide remuneration that is competitive in the market and linked to the Company's long term growth and value. The board seeks to ensure that the Company attracts and retains talented and motivated employees who can enhance business performance through their contributions and leadership. All staff are employed and remunerated by K2 Asset Management Ltd with all contracts for service being on a continuing basis.

The nature and extent of remuneration is reviewed and agreed upon annually by the board of directors as a whole. The board has obtained professional advice from remuneration consultants where necessary to ensure that current and proposed fixed, short and long term incentives are comparable with the market for similar roles and skill sets. As there were no increases to the fixed remuneration of the directors, no external consultants were engaged during the financial year.

Remuneration of employees is made up of the following components:

**Fixed remuneration:** includes base salary and employer superannuation contributions. All employees, including directors, have salary reviews on an annual basis. When making changes to an individual's base remuneration the board as a whole considers the employee's responsibilities, historic performance and length of employment with the Company, as well as the applicable industry rate. When increasing Directors' base remuneration external consultants are engaged to ensure changes are consistent with internal policies and external market practices.

#### **Performance bonuses**

In order for employees or executive directors to be eligible for a bonus a number of predetermined criteria must first be met. These include the Company achieving budgeted results, maintaining a cost to income ratio of 50% (defined as total expenses divided by total income) and the investment funds achieving sufficient returns. These determinants ensure that the level of bonuses paid is directly linked to the financial performance of the Company. Upon meeting this criteria a bonus pool is established taking into account the maintenance of the 50% cost to income ratio. Varying portions of the bonus pool are allocated to different employee groups including executives, investment managers, legal, business development and administration. Bonuses are paid via the short-term and long-term incentive plans described below:

**Short-term incentives:** refers to performance-based cash bonuses. Along with the criteria mentioned above all employees (including executive directors) have specified key performance indicators they are required to meet depending on the position held. Key performance indicators are set on an annual basis and take into account individuals' skill sets, tasks required to be performed and projects and developments to be implemented in the year ahead. Key performance indicators include, but are not limited to, investment manager return on capital, successful implementation of internal projects, positive fund flows, enhancement of distribution channels, timely reporting to unitholders and shareholders and adherence to the K2 internal trademarks.

Bonuses are ultimately determined by the board after appropriate consultation with senior managers and for investment managers the review of proprietary software that allows basis points and capital allocation to be reviewed on an individual fund manager level for the period in question. Bonuses can be paid semi-annually as at 31 December and 30 June. Short-term incentives paid or earned to all employees including directors and key management personnel in relation to the 2018 financial year were nil (2017: \$1,020,825).

**Long-term incentives:** are provided via a performance-based deferred cash bonus which represents 25% to 75% of the short-term incentive that is retained by the Company. This deferred component is payable over three tranches over a three year period. Deferred bonus payments are only paid if the employee remains at the Company and continues to meet specified key performance indicators. If either of these criteria are not met then the deferred bonus is forfeited. The deferred bonus can be revoked at the board's discretion.

Long-term incentives paid or due for the 2018 financial year is \$454,677 (2017: \$737,128). This represented 93% (2017: 100%) of the total deferred bonus payable. The current year amount forfeited was due to the above mentioned criteria not being met. There is currently a maximum of \$109,450 (2017: \$619,990) outstanding in deferred bonuses payable between June 2019 and June 2020.

In limited cases, the board may approve the issue of new equity in K2 Asset Management Holdings Ltd as a long-term incentive for employees or alternatively allow the use of after tax proceeds of deferred bonuses to purchase new or existing shares in the Company. The total value of new equity issued as a long-term incentive in the 2018 financial year was \$100,000 (2017: nil).



## AUDITED REMUNERATION REPORT (CONT'D)

### REMUNERATION SUMMARY

A summary of the remuneration for the directors of the Company for the financial year ended 30 June 2018 is as follows (the below information is summarised in Note 22):

	<b>Campbell Neal</b>	<b>Mark Newman</b>
Position held:	Chairman and Managing Director	Chief Investment Officer
Appointed:	September 1999	September 1999
Base salary:	\$1,085,267 (2017: \$1,085,618)	\$311,960 (2017: \$319,298)
Superannuation:	\$20,049 (2017: \$19,616)	\$25,000 (2017: \$19,616)
Short-term incentives earned: *	nil (2017: \$262,597)	nil (2017: \$82,329)
Long-term incentives paid or due: *	\$150,340 (2017: \$213,736)	\$74,603 (2017: \$96,929)
Long-term incentives payable:	There is no performance-based deferred cash bonus payable to Mr Neal as at June 2018 (2017: \$157,956).	There is no performance-based deferred cash bonus payable to Mr Newman as at June 2018 (2017: \$78,383).
Incentive based salary as a % of total salary:	12% (2017: 30%)	18% (2017: 35%)
	<b>Hollie Wight</b>	<b>Robert Hand</b>
Position held:	Chief Financial Officer and Company Secretary	Non-Executive Director
Appointed:	April 2005	October 2001
Base salary:	\$254,328 (2017: \$254,761)	\$65,516 (2017: \$67,445)
Superannuation:	\$20,049 (2017: \$19,616)	\$6,224 (2017: \$6,407)
Short-term incentives earned: *	nil (2017: \$53,300)	nil (2017: nil)
Long-term incentives paid or due: *	nil (2017: \$8,376)	nil (2017: nil)
Long-term incentives payable:	There is no performance-based deferred cash bonus payable to Ms Wight as at June 2018 (2017: nil).	As a non-executive director, Mr Hand is ineligible to receive incentive based payments.
Incentive based salary as a % of total salary:	0% (2017: 18%)	Not applicable

\* No short or long-term incentives payable to key management personnel were forfeited in the current financial year.

## AUDITED REMUNERATION REPORT (CONT'D)

### REMUNERATION SUMMARY (CONT'D)

	<b>Matthew Lawler</b>
Position held:	Non-Executive Director
Appointed:	September 2016
Base salary:	\$75,000 (2017: \$57,404)
Superannuation:	\$7,125 (2017: \$5,453)
Short-term incentives earned: *	nil (2017: nil)
Long-term incentives paid or due: *	nil (2017: nil)
Long-term incentives payable:	As a non-executive director, Mr Lawler is ineligible to receive incentive based payments.
Incentive based salary as a % of total salary:	Not applicable

\* No short or long-term incentives payable to key management personnel were forfeited in the current financial year.

### TERMS OF EMPLOYMENT OF KEY MANAGEMENT PERSONNEL

All key management personnel are employed via agreements which are considered to be standard in nature, with the exception of a 12 month non-compete clause in Campbell Neal's agreement.

### RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE

The following compares financial results for the last five years to dividend and incentive payments to key management personnel:

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Profit/(loss) before tax	7,204,842	8,721,663	5,655,183	26,963,480	23,597,248
Profit/(loss) after tax	5,220,070	6,099,229	3,821,442	18,878,891	16,437,342
Total performance fees	7,641,846	7,280,556	1,128,684	31,861,524	27,668,403
Basic earnings per share	2.17	2.59	1.64	8.08	7.04
Cost to income ratio	48.81%	49.27%	59.87%	40.92%	43.48%
Total KMP short-term incentives as a percentage of total income for the year	0.00%	2.32%	0.00%	11.17%	10.73%

The above highlights the impact that performance fees and the cost to income ratio have in determining the total bonus pool available to all employees including key management personnel. For further detail on performance bonuses payable to all staff including key management personnel see page 8.

## AUDITED REMUNERATION REPORT (CONT'D)

### CONSEQUENCE OF COMPANY'S PERFORMANCE ON SHAREHOLDER WEALTH

The following table summarises company performance and key performance indicators:

	2018	2017	2016	2015	2014
Revenue (\$)	14,075,362	17,193,534	14,092,005	45,638,460	41,749,868
Change in revenue (%)	(18.14%)	22.01%	(69.12%)	9.31%	14.78%
Profit before tax (\$)	7,204,842	8,721,663	5,655,183	26,963,480	23,597,248
Change in profit before tax (%)	(17.39%)	54.22%	(79.03%)	14.27%	25.12%
Change in share price (%)	(39.13%)	(45.24%)	(40.00%)	2.94%	65.85%
Dividends declared (\$)	1,202,105	5,272,806	3,503,816	24,522,241	14,010,348
Total remuneration of KMP (\$)	2,095,461	2,572,501	4,522,139	8,029,044	7,570,749
Total performance based remuneration of KMP (\$)	224,943	717,267	2,648,861	6,078,178	5,364,836

### DIRECTORS' INTERESTS IN SHARES

Number of shares held by key management personnel, company secretary and related parties

	Balance 30 June 2017	Net change Other*	Balance 30 June 2018
<b>Directors</b>			
Campbell Neal	82,635,716	1,964,431	84,600,147
Mark Newman	34,153,187	(4,520,000)	29,633,187
Hollie Wight	5,238,566	-	5,238,566
Robert Hand	13,616,976	(1,155,568)	12,461,408
Matthew Lawler	220,000	-	220,000
	135,864,445	(3,711,137)	132,153,308

\* Net change refers to shares purchased or sold during the year

The above shareholdings reflect shares held by companies and other entities related to the directors. For further details on relevant interests refer to page 13 of this report and the Company's ASX notices regarding substantial shareholdings.

### LOANS TO KEY MANAGEMENT PERSONNEL

During the financial year there were no loans to key management personnel, including their related parties.

Refer to Note 24 for details of transactions with related parties. There were no other transactions with related parties during the period other than those detailed in Note 24 of the financial statements.

### VOTING AND COMMENTS MADE AT THE COMPANY'S 2017 ANNUAL GENERAL MEETING

At the company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of 'yes' votes were cast for adoption of that report. No comments were made on the remuneration report that was considered at the AGM.

End of audited remuneration report.

Signed in accordance with a resolution of the directors.



**Campbell Neal**  
Director



**Hollie Wight**  
Director

Melbourne  
28 August 2018

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 audit for the year ended 30 June 2018, 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 year.



B J BRITTEN  
Partner

28 August 2018



PITCHER PARTNERS  
Melbourne

## SHAREHOLDER INFORMATION

### TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of ordinary securities as at 20 August 2018 are as follows:

	Number of shares	%
CWN FT PTY LTD <CWN FAMILY A/C>	77,723,973	32.239%
ABRO INVESTMENTS PTY LTD <ABRO FAMILY A/C>	12,461,408	5.169%
NATIONAL NOMINEES LIMITED	11,507,563	4.773%
MR MARK NEWMAN <FD246 A/C>	10,365,313	4.299%
MSN SUPERANNUATION NOMINEES PTY LTD <MSN SUPERANNUATION FUND A/C>	10,151,365	4.211%
JAWATTE NOMINEES PTY LTD <THE JAWATTE FAMILY A/C>	8,890,762	3.688%
MS NEWMAN FAMILY FOUNDATION PTY LTD	8,555,556	3.549%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,554,208	3.548%
GAHEE PTY LTD <HJN SUPERANNUATION FUND A/C>	7,680,000	3.186%
MR PETER RONEC <RONEC SUPER FUND A/C>	5,693,083	2.361%
CWN SUPERANNUATION NOMINEES PTY LTD <CWN PERSONAL SUPER FUND A/C>	5,152,853	2.137%
MR JOSHUA KITCHEN	4,850,000	2.012%
DHC INVESTMENTS PTY LTD <CLEVEN FAMILY A/C>	4,244,496	1.761%
MR NICHOLAS LEITL	4,090,479	1.697%
CRUSADE NOMINEES PTY LTD <POPPENBEEK FAMILY A/C>	3,775,000	1.566%
MR PETER RONEC & MS SUZANNE RUMBLE <RONEC SUPER FUND A/C>	2,843,250	1.179%
TG INVESTMENT CORP PTY LTD <TG A/C>	2,549,804	1.058%
LUCKNOW SECURITIES PTY LTD <HALL FAMILY A/C>	2,447,283	1.015%
MR PETER RONEC <RF A/C>	2,003,796	0.831%
MS SIMONE MARCELLE NEAL	1,920,734	0.797%
<b>Total held by top 20</b>	<b>195,460,926</b>	<b>81.075%</b>
<b>Total ordinary securities on issue</b>	<b>241,085,196</b>	

Under chapter 6 of the *Corporations Act 2001* a person has a relevant interest in securities if they have a power to control a right to vote attached to the securities, no matter how remote that interest is.

A small number of K2 employees, directors and connected persons are parties to a shareholders' agreement which was established in 2003. Among other things, the agreement provides that if the parties are required to vote on certain matters at a general meeting, a special resolution of the parties is required prior to any party to the agreement voting at the general meeting.

These obligations have the effect of creating a relevant interest (as defined in the *Corporations Act 2001*) between the parties to the shareholders' agreement. Accordingly, each party to the agreement, by having a relevant interest in the others' shares, is a substantial holder in the Company. Parties to this historical agreement together control a total of 134,079,890 ordinary shares. Certain members of the above group also have a relevant interest in shares which are held in entities external to the shareholders' agreement. As a result, these persons can be said to control a higher number of shares. Campbell Neal has a relevant interest in an additional 6,876,174 shares, bringing his total substantial holding to 140,956,064 shares. Mark Newman has a relevant interest in an additional 19,267,874 shares, bringing his total substantial holding to 153,347,764 shares. Hollie Wight has a relevant interest in an additional 994,070 shares, bringing her substantial holding to 135,073,960 shares. Joshua Kitchen has a relevant interest in an additional 240,000 shares, bringing his substantial holding to 134,319,890. David Poppenbeek has a relevant interest in an additional 1,270,000 shares, bringing his total substantial holding to 135,349,890 shares. Peter Ronec has a relevant interest in an additional 8,536,333 shares, bringing his total substantial holding to 142,616,223. Andrew Hall has a relevant interest in an additional 30,010 shares, bringing his total substantial holding to 134,109,900 shares. Timothy Holt has a relevant interest in an additional 20,000 shares, bringing his total substantial holding to 134,099,890. Andrew Pugsley has a relevant interest in an additional 71,429 shares, bringing his total substantial holding to 134,151,319 shares.

For details of the shareholdings held by companies and other related entities of the directors of the Company, please refer to the Remuneration Report on page 11.

## SHAREHOLDER INFORMATION (CONT'D)

### DISTRIBUTION OF SECURITIES

**Security Class: Fully Paid Ordinary Shares**

**Holdings Ranges as at 20 August 2018**

	<b>Holders</b>
1-1,000	97
1,001-5,000	264
5,001-10,000	214
10,001-100,000	479
100,001-9,999,999,999	110

**Total number of holders** **1,164**

**Number of holders of less than a marketable parcel** **253**

### VOTING RIGHTS

At general meetings of shareholders, each shareholder in person or by proxy, attorney or representative has one vote on a show of hands and on a poll has one vote for each share held.

At any general meeting, resolutions are to be decided on a show of hands unless a poll is requested by at least five shareholders entitled to vote on the resolution, by shareholders entitled to cast at least 5% of the votes that may be cast on the resolution or by the chair.

### 2018 ANNUAL GENERAL MEETING

The Annual General Meeting will be held at K2 Asset Management Ltd, Level 32, 101 Collins Street, Melbourne at 9.00am on Tuesday 27 November 2018. Details of all resolutions being put to shareholders will be distributed prior to the meeting.

If you would like to submit a question to be addressed at the AGM prior to the day, please email your question to [information@k2am.com.au](mailto:information@k2am.com.au).

## CORPORATE GOVERNANCE STATEMENT

The Directors and management of the Company are committed to good corporate governance practice. When adopting corporate governance policies, the Board has regard to, among other things, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition), released in 2014 (**ASX Recommendations**). Unless the context otherwise requires, capitalised terms used in this Corporate Governance Statement have the meanings given to them in the ASX Recommendations.

Detailed corporate governance policies, charters and codes referred to in this Corporate Governance Statement are available on the Company's website ([www.k2am.com.au](http://www.k2am.com.au)) under Shareholders, Corporate Governance. As part of its governance framework and to ensure the Company continues to enhance its governance standards, the Board and management routinely review the Company's policies and procedures. For completeness, the policies, charters and codes available on the Company's website include the following:

- Board Charter
- Code of Conduct
- Constitution of the Company
- Continuous Disclosure Policy
- Corporate Governance Summary
- Diversity Policy
- Risk Management Policy
- Share Trading Policy, and
- Statement of Corporate Governance Principles.

This Corporate Governance Statement outlines the Company's compliance against the ASX Recommendations for the current Reporting Period ended 30 June 2018 and has been approved by the Board. To the extent that the Company has not followed an ASX Recommendation for any part of the Reporting Period, this Corporate Governance Statement separately identifies that ASX Recommendation and states the period it was not followed, the Company's reasons for not following that ASX Recommendation and what (if any) alternative governance practices it adopted in lieu of the ASX Recommendation during that period.

### PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

#### 1.1 RESPECTIVE ROLES AND RESPONSIBILITIES OF BOARD AND MANAGEMENT

The Board has primary responsibility for the oversight, management and performance of the Company, which includes compliance with the Company's corporate governance objectives.

The specific duties, responsibilities and powers reserved to the Board are summarised in the Board Charter, which provides, among other things, that the Board is responsible for:

- oversight of strategic and financial objectives;
- nominating, appointing and monitoring Board members and management;
- monitoring risk, compliance and corporate governance and approving relevant policies and procedures;
- supervising secretarial and other matters such as convening Security Holder meetings, issuing shares, major litigation and continuous disclosure; and
- initiating plans or changes to business operations, and delegating to senior management or committees where appropriate.

Consistent with ASX Recommendation 1.1, management is responsible for matters not expressly reserved to the Board, including implementing the strategic objectives set by the Board, operating within the Board's risk parameters and otherwise operating the business day to day. Management is also responsible for reporting to the Board with accurate, timely and clear information to support the Board in performing its responsibilities.

The Board meets formally at least six times a year and on other occasions as required. On the invitation of the Board or a request made to the Board, a Senior Executive may attend and make presentations to the Board.

#### 1.2(a) APPOINTMENT, RETIREMENT AND RE-ELECTION

In accordance with ASX Recommendation 1.2(a), and consistent with the process the Company follows before employing any new employee, appropriate background and probity checks (relevant to the person's character, experience, education, criminal history and, for a Director, bankruptcy history) are undertaken before appointing a candidate, or putting forward to Security Holders a candidate for election as a Director.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

The Constitution requires one third of the Board, excluding the Managing Director, to retire from office at each AGM. Directors who have been appointed to the Board are required to retire from office at the next AGM and are not taken into account in determining the number of Directors to retire at that AGM. Directors cannot hold office for a period in excess of three years (or later than the third AGM following their appointment) without submitting themselves for re-election. Retiring Directors are eligible for re-election by Security Holders.

### 1.2(b) PROVISION OF INFORMATION TO SECURITY HOLDERS

In accordance with ASX Recommendation 1.2(b), Security Holders are provided with all material information relevant to a decision on whether or not to re-elect a Director ahead of, and at, an AGM. This information includes details of the Director's biography, other material Directorships (if applicable), term of office currently served and a statement by the Board (with the nominee Director abstaining) as to whether it supports the re-election of the Director.

### 1.3 WRITTEN AGREEMENTS WITH DIRECTORS

In accordance with the Board Charter and consistent with ASX Recommendation 1.3, each Director is engaged under the terms of a written agreement. Directors remain subject to the rotational requirements for re-election under paragraph 1.2(a) above.

### 1.4 COMPANY SECRETARY

The role and responsibilities of the Company Secretary are consistent with ASX Recommendation 1.4. The Company Secretary is directly accountable to the Board, through the Chair, on all matters relating to the proper functioning of the Board. The Constitution gives the Board power to appoint, on terms it considers appropriate, and remove the Company Secretary.

### 1.5 DIVERSITY

The Company respects people as individuals and values differences. It is committed to creating a working environment that is fair and flexible, promotes personal and professional growth and benefits from the capabilities of a diverse workforce.

Consistent with ASX Recommendation 1.5, the Company has a Diversity Policy available to Security Holders on its website that contains requirements for the Board to set measurable objectives for achieving workplace diversity and to annually assess those objectives and the Company's progress in achieving them.

A summary of the measurable objectives and steps taken towards achieving them during the Reporting Period include the following:

#### ***Objective 1: Valuing diversity in the selection and appointment of directors and employees, always ensuring that decisions are based on merit alone***

The Company's diversity strategy includes:

- focusing on recruiting from a diverse pool of candidates for all positions, including for senior management and the Board; and
- identifying specific factors to take into account in the recruitment and selection processes to encourage greater diversity in the Company's human talent.

Against objective 1 during the Reporting Period, the Company successfully recruited a number of senior managers with diversity across gender, culture, technical background and professional experience.

#### ***Objective 2: Workplace culture – ongoing diversity***

The Company maintains initiatives to help employees balance their work, life and family responsibilities, with the aim of improving staff loyalty and retention, and maintaining the diversity amongst its workforce. These initiatives include:

- enhancing mental health and wellbeing at work;
- support for parental leave and providing part-time and other flexible work options where possible;
- "family days" which can be taken by full-time employees once every two months (in addition to standard annual leave), for any purpose including attending children's or family activities, a religious holiday or cultural event; and
- an Anti-Discrimination and Anti-Harassment Policy and relevant training for all staff.

The Board was satisfied with progress on objective 2 and considered that the above initiatives were effectively utilised during the Reporting Period and contributed to encouraging greater staff wellbeing and retention.



## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### **Objective 3: Diversity in Board membership**

The mix of skills and diversity which the Directors seek to achieve in the membership of the Board are set out in the full-length Diversity Policy. No single Director is expected to have all the listed skills and/or qualities set out in the Diversity Policy, and some may be contributed by the Company Secretary or other advisors and committees. The Board has five members, one of which is female. Given the small size and stability of the Board and the longevity of service of its Directors, it is not possible to identify a pattern (diverse or otherwise) in Board appointments for the Reporting Period.

As at the end of the Reporting Period, the Company had 20 employees in total, four of whom are female. The Company's recruitment and opportunities for promotion have always been based on merit. Two of the Company's departments are led by women and, as already noted, one of the five Directors is female. The Company has not hesitated to elevate women (or a person of any age, ethnicity or cultural background) to senior positions where their skills and abilities merit the appointment.

The Diversity Policy states that the Board and the Company's compliance department will consider and develop further diversity, retention and loyalty programmes which, in its view, are necessary or beneficial. The Board may set further objectives or targets as it sees fit from time to time, particularly if employee numbers begin to increase, and will take appropriate measures consistent with the size, nature and complexity of its operations. The Board has established objectives for gender diversity, but they are not as "measurable" as the kinds of objectives which are able to be set and monitored by larger companies. In this regard, the Company has adopted ASX Recommendation 1.5 as far as is reasonably practicable and applicable to the Company.

### **1.6 & 1.7 PERFORMANCE ASSESSMENT**

In accordance with ASX Recommendations 1.6 and 1.7, the Board completes an annual performance evaluation of the Board, each Director (who also represents the Company's Senior Executives) and Senior Executives against the requirements of the Board Charter, criteria determined by the Board from time to time and the requirements of the Constitution.

As part of the evaluation process, the Board:

- sets performance objectives and development plans (having regard to both the business goals set by the Board and individual performance criteria) for the forthcoming financial year;
- assesses individual performance against the prior year's performance objectives; and
- determines short term remuneration and long term participation in the Company's incentive plan by reference to each individual's performance.

A performance evaluation for the current Reporting Period was conducted towards the end of the Reporting Period.

The Board is responsible for undertaking and approving the annual performance review of the Managing Director. Generally, performance evaluations for all employees (including Directors and Senior Executives) are undertaken before 30 June each year.

## **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

### **2.1 NOMINATION COMMITTEE**

The Board maintained responsibility for the nomination and appointment of Directors during the Reporting Period, including conducting evaluations of each Director.

Given the Company's small size and Board composition, and consistent with Commentary in ASX Recommendations 2.1, the Company considers that the Board is able to deal efficiently and effectively with the relevant matters in this ASX Recommendation, without the need to establish a separate nomination committee. The Board believes that the efficiencies the Company currently enjoys may be lost by delegating those matters to a committee.

The Board reviews the performance of those Directors who, at the AGM, stand for re-election.

### **2.2 BOARD SKILLS MATRIX**

Directors are expected to bring independent views and judgment to all Board deliberations. The skills, experience and expertise relevant to the position held by each Director in office at the end of the Reporting Period are described in the Company's annual report for the period ended 30 June 2018. In accordance with ASX Recommendation 2.2, the Board considers the mix of skills and diversity of each Board member when assessing the composition of the Board.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### 2.3 DIRECTOR INDEPENDENCE

The structure of the Board throughout the Reporting Period was as follows:

Director	Title	Date of appointment to K2 Asset Management Ltd	Date of appointment to K2 Asset Management Holdings Ltd
Campbell Neal	Executive Director and Chair	1 March 1999	27 March 2007
Mark Newman	Executive Director	5 May 1999	27 March 2007
Hollie Wight	Executive Director	27 April 2005	27 March 2007
Robert Hand	Non-Executive Director	3 November 2001	27 March 2007
Matthew Lawler	Non-Executive Director	27 September 2016	27 September 2016

During the Reporting Period, no Director had an interest, position, association or relationship that, in the Board's opinion, compromised the independence of that Director. In making its determination, the Board had regard to the independence criteria in ASX Recommendation 2.3 and other information and circumstances the Board considered relevant, including reviewing each Director's former and existing relationships.

The Board distinguishes the concept of independence, and the issues of conflicting or material personal interests, which may arise from time to time. Any conflict of interest or material personal interest of a Director is managed in accordance with the Company's conflicts policy and the applicable legal and regulatory requirements for managing these issues. The conflicts policy sets out how the Company manages (ie, controls, avoids and/or discloses (if necessary)) any conflicts of interest. The policy also addresses the Company's obligations under the Corporations law and ASIC regulatory guidance and is reviewed annually to ensure it remains relevant and up to date. The Board maintains, and regularly reviews, a conflict register. The conflict register supports the Company's conflicts management procedures and ensures conflicts that do arise are recorded and appropriately managed.

Each Director is entitled to obtain independent professional advice at the Company's expense for the purpose of assisting them in performing their duties. A Director who wishes to obtain such advice must first obtain the approval of the Chair (and such approval must not be withheld unreasonably) and must provide the Chair with the reason for seeking such advice, the identity of the person from whom the advice will be sought and the likely cost of obtaining such advice. Except in certain circumstances detailed in the Board Charter, advice obtained in this manner is made available to the Board.

All Directors have unrestricted access to employees of the Company and, subject to law, access to all Company records and information held by the Company, its employees and advisors.

### 2.4 & 2.5 MAJORITY OF INDEPENDENTS, SEPARATE CHAIR AND CEO

During the Reporting Period, the Board reviewed the position and associations of each current Board member and determined that one Non-Executive Director, Mr Matthew Lawler, was independent of the Company.

Given the small size and cohesion of the existing Board, and the fact that all Executive Directors also make up the Company's management team, the recommendation in ASX Recommendation 2.5 to have an independent Chair (distinct from the CEO) was determined by the Company to be unnecessary for the Reporting Period. The Company considers that, notwithstanding that the Chair and Managing Director (CEO equivalent) are the same individual, the Board has the necessary industry expertise, and is appropriately structured, to perform its duties in a manner that is in the best interests of the Company and its Security Holders.

### 2.6 INDUCTION AND TRAINING

In accordance with ASX Recommendation 2.6, all Directors and new employees receive induction training, covering the following (as appropriate):

- Company structure and operations;
- risk management, corporate governance and various employee-related and Company policies;
- the rights, duties and responsibilities of Directors, Senior Executives and employees as applicable;
- office procedures and administrative information; and
- legal and regulatory obligations specific to K2 as the holder of an Australian financial services licence.

All Directors have access to, and do access, continuing education through various education providers to enhance their skills and knowledge where deemed appropriate.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

#### 3.1 CODE OF CONDUCT

As set out in ASX Recommendation 3.1, the Company has a Code of Conduct regulating the conduct of employees and Directors. The Code of Conduct aims to establish the Company's values and maintain the highest level of ethical standards, corporate behaviour and accountability. In particular, the Code of Conduct addresses:

- compliance with laws, including taxation law;
- fair dealing;
- confidentiality and protection of Company assets;
- conflicts of interest;
- obligations to Security Holders and the financial community;
- trading in Company securities;
- equal opportunity;
- health, safety and environment;
- reporting non-compliance and grievances;
- bribes and financial inducements; and
- political donations.

Several of the above matters are supported by their own separate and distinct Company policies and procedures.

For instance, under the Company's Share Trading Policy, employees (including Directors) must not deal in the securities of the Company when they are in possession of price sensitive information relating to the Company which has not been made public. Subject to this, trading can occur at all times, except:

- from 1 December, until one hour after the half-yearly financial reports are released to the market; and
- from 1 June, until one hour after the annual financial results are released to the market.

Outside of the above trading blackout periods, if employees (including Directors) wish to trade in securities, they must obtain prior written approval from a Director and present a signed declaration that they are not in possession of any material non-public information.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

#### 4.1 AUDIT COMMITTEE

ASX Recommendation 4.1 recommends that a Board establish an audit committee in respect of its financial statements. The Company delegates responsibility for the Company's financial statements to the Board, with support and input from the Company's financial controller, CFO and external auditor. Specifically, the Board is responsible for carrying out the following functions, which would otherwise be recommended matters for an audit committee:

- reviewing and considering the financial statements;
- reviewing the effectiveness and performance of the Company's external auditors; and
- ensuring the independence and competence of the external auditor.

Given the Company's small size and Board composition, and consistent with the Commentary in ASX Recommendations 4.1, the Company considers that it is able to deal efficiently and effectively with the relevant matters in this ASX Recommendation without the need to establish a separate committee. The Board believes that the efficiencies the Company currently enjoys may be lost by delegating those matters to a committee.

The Company's external auditor declares its independence to the Company through its representations to the Board and provision of its independence declaration, stating that there have been no contraventions of auditor independence requirements as set out in the Corporations Act or any auditors' professional code.

If it becomes necessary to replace the Company's external auditor for performance, independence or other reasons, the Board may formalise a procedure for the selection and appointment of new auditors. The external auditor maintains internal policies to ensure periodic rotation of its external audit engagement partners.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### 4.2 CEO/CFO DECLARATION

In accordance with ASX Recommendation 4.2 and the Corporations Act, before the Board approves the Company's financial statements for a financial period, the Board receives from the Managing Director (CEO equivalent) and CFO a declaration that, in their opinion, the Company's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### 4.3 EXTERNAL AUDITOR ATTENDANCE AT AGM

The external auditor of the Company for the Reporting Period was Pitcher Partners. In accordance with ASX Recommendation 4.3, the external auditor (through the senior engagement partner or its representative) attends and is available to answer questions at the AGM. Security Holders may submit questions for the external auditor to the Company Secretary no later than five business days before an AGM. In accordance with section 307C of the Corporations Act, the external auditor makes an annual independence declaration to the Board, declaring that it has maintained independence.

The Board has a process governing the provision of non-audit services to the Company by the external auditor. In some cases, the provision of specific services is not permitted in any circumstances (such as the preparation of accounting records, valuations and internal audit assistance). Alternatively, some services (such as tax compliance services) are permitted, while others require the Board's prior approval (such as tax advice and investigative accounting services).

## PRINCIPLE 5: MAKING TIMELY AND BALANCED DISCLOSURE

### 5.1 CONTINUOUS DISCLOSURE POLICY

The Company has a Continuous Disclosure Policy to ensure compliance with its continuous disclosure obligations under the Listing Rules and clear and timely communication to Security Holders and the market generally. The Continuous Disclosure Policy was designed having regard to ASX Guidance Note 8 *Continuous Disclosure: Listing Rule 3.1 – 3.1B* and the 10 principles set out in ASX Regulatory Guide 62 *Better disclosure for investors*.

Broadly, the Continuous Disclosure Policy:

- gives guidance as to the information that may require disclosure;
- gives guidance for dealing with market analysts and the media;
- requires Directors and senior management to actively consider whether there is any price sensitive information which needs disclosure; and
- allocates responsibility for approving public disclosures and Security Holder communications.

As recommended in ASX Recommendation 5.1, the Continuous Disclosure Policy includes vetting and authorisations processes designed to ensure that announcements are factual, complete, balanced and expressed in a clear and objective manner that allows investors to assess the information when making investment decisions.

The Company Secretary is responsible for communications with the ASX, including responsibility for ensuring compliance with the continuous disclosure requirements in the Listing Rules and overseeing information going to the ASX, Security Holders and other interested parties.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

### 6.1 PROVISION OF INFORMATION TO INVESTORS

The Company provides information about itself and its governance to investors via its website ([www.k2am.com.au](http://www.k2am.com.au)). The website also includes an attachment or link (as the case may be) to the categories of information recommended in ASX Recommendation 6.1, as applicable.

### 6.2 & 6.3 INVESTOR RELATIONS PROGRAM, MEETING PARTICIPATION

The Company reports to Security Holders of the Company through its annual and half-yearly reports and also at the Company's AGM. The Board encourages Security Holders to attend and participate at the AGM or to appoint a proxy to vote on their behalf if they are unable to attend. The Company engages Boardroom Pty Ltd as its registry service provider to manage the share registry of the Company, as well as certain investor communications. The Continuous Disclosure Policy reinforces the Company's commitment to using general meetings of the Company to effectively communicate with Security Holders and to allow reasonable opportunity for informed Security Holder participation.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### 6.4 ELECTRONIC COMMUNICATION

Consistent with ASX Recommendation 6.4, Security Holders have the option to receive communications from, and send communications to, the Company and its share registry electronically, which includes dividend statements, annual reports and notices of general meetings etc.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

### 7.1 & 7.2 RISK COMMITTEE AND RISK REVIEWS

The Board Charter gives the Board responsibility for approving and monitoring compliance with the Company's risk management strategy and internal controls. The Risk Management Policy establishes a Management Risk Review Group to identify and monitor the risks faced by the Company and recommend mitigation strategies. The Board considers that the Management Risk Review Group performs a role similar to that of a risk committee (as recommended in ASX Recommendation 7.1), without the need to formally establish one. The Board considers this appropriate given the Company's small size and composition, and also given its vigorous AFSL compliance program. The Management Risk Review Group reports to the Board at regular intervals on any issues relating to compliance with risk measures ie, insurance, occupational health and safety, protection of client funds and financial requirements.

The Company is committed to the identification, monitoring and management of risks associated with its business activities. As part of its existing management and reporting systems, the Risk Management Policy is founded on the detailed risk management procedures required under K2's AFSL and is guided by AS/NZS ISO 31000:2009 *Risk management – Principles and guidelines*. In accordance with ASX Recommendation 7.2, the Management Risk Review Group and the Board are responsible for monitoring, evaluating and improving the effectiveness of the Company's risk management and internal control processes and review the risk management framework at least annually. The Board most recently reviewed the Company's risk management framework prior to the end of this Reporting Period.

### 7.3 INTERNAL AUDIT FUNCTION

Although the Company does not adopt a formal internal risk audit function, management and employees are ultimately responsible to the Board for the Company's system of internal control and risk management, and the Board considers this appropriate in the Company's circumstances. In addition, the Company's wholly-owned operating entity is the holder of AFSL 244 393 and is subject to a significant number of statutory and external audit requirements. In particular, the external audits provide assurance on the robustness of the Company's compliance framework.

### 7.4 MATERIAL EXPOSURES

In accordance with ASX Recommendation 7.4, the Board does not consider that the Company has any material exposure to economic, environmental and social sustainability risks that are different or unusual to any other company operating in the financial services industry investing in domestic and global equity markets.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1 REMUNERATION COMMITTEE

The Board considers that it was not necessary to establish a separate remuneration committee for the Reporting Period, as all matters capable of delegation to a remuneration committee were effectively dealt with by the Board.

Under the Company's Corporate Governance Summary, all employee and executive remuneration is assessed on an annual basis as part of the Company's annual performance reviews. The Board Charter makes the Board responsible for the remuneration of Directors and senior management, and the Constitution provides further details regarding remuneration. The Company engages independent professional advice in respect of remuneration, as required, as part of its review of remuneration arrangements and to assist in developing an appropriate remuneration policy and incentive scheme. The Constitution distinguishes the appropriate remuneration components for Executive and Non-Executive Directors.

Given the Company's small size and Board composition, and consistent with the Commentary in ASX Recommendations 8.1(b), the Company considers that it is able to deal efficiently and effectively with the relevant matters in this ASX Recommendation without the need to establish a separate committee.

### 8.2 REMUNERATION DISCLOSURE

The Board Charter summarises the Company's remuneration practices and the Board believes that this, coupled with the required disclosures regarding Directors and their remuneration in the Company's annual report for the period ended 30 June 2018, are consistent with ASX Recommendation 8.2.

### 8.3 EQUITY-BASED REMUNERATION

The Company did not have a formal equity-based incentive scheme during the Reporting Period. From time to time, the Company may consider and offer equity in the Company to eligible employees on a case by case basis.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
Revenue	4	14,075,362	17,193,534
Employee benefits expense	5	(5,554,059)	(6,904,526)
Depreciation and amortisation expenses	5	(38,705)	(49,861)
Marketing expenses	5	(344,579)	(452,507)
Occupancy expenses	5	(454,069)	(591,492)
Professional expenses		(270,622)	(281,675)
Technology expenses		(148,672)	(149,212)
Fund operating expenses		(27,557)	-
Other expenses		(32,257)	(42,598)
		(6,870,520)	(8,471,871)
<b>Profit before income tax</b>		<b>7,204,842</b>	<b>8,721,663</b>
Income tax expense	6	(1,984,772)	(2,622,434)
<b>Total comprehensive income for the year</b>		<b>5,220,070</b>	<b>6,099,229</b>
Basic earnings per share (cents per share)	21	2.17	2.59
Diluted earnings per share (cents per share)	21	2.17	2.59

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

	Notes	2018 \$	2017 \$
<b>Current Assets</b>			
Cash and cash equivalents	8	15,726,032	13,370,620
Receivables	9	611,649	2,006,840
Other current assets	10	281,497	205,515
<b>Total Current Assets</b>		<b>16,619,178</b>	<b>15,582,975</b>
<b>Non-current Assets</b>			
Plant and equipment	11	34,792	63,089
Intangible assets	12	2,279	2,927
Deferred tax assets	6	340,963	520,130
Other non-current assets	13	537,405	351,445
<b>Total Non-current Assets</b>		<b>915,439</b>	<b>937,591</b>
<b>Total Assets</b>		<b>17,534,617</b>	<b>16,520,566</b>
<b>Current Liabilities</b>			
Trade and other payables	14	505,960	914,524
Current tax payable	6	919,946	1,189,314
Provisions	15	1,402,762	3,098,809
<b>Total Current Liabilities</b>		<b>2,828,668</b>	<b>5,202,647</b>
<b>Non-current Liabilities</b>			
Provisions	15	46,202	88,754
Other non-current liabilities	14	22,660	108,991
<b>Total Non-current Liabilities</b>		<b>68,862</b>	<b>197,745</b>
<b>Total Liabilities</b>		<b>2,897,530</b>	<b>5,400,392</b>
<b>Net Assets</b>		<b>14,637,087</b>	<b>11,120,174</b>
<b>Equity</b>			
Share capital	16	4,601,987	4,501,987
Reserves	17	2,060,985	-
Retained earnings	18	7,974,115	6,618,187
<b>Total Equity</b>		<b>14,637,087</b>	<b>11,120,174</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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018

2018	Contributed equity \$	Reserves \$	Retained earnings \$	Total Equity \$
Balance as at 1 July 2017	4,501,987	-	6,618,187	11,120,174
Profit for the year	-	-	5,220,070	5,220,070
Total comprehensive income for the year	-	-	5,220,070	5,220,070
<b>Transactions with owners in their capacity as owners</b>				
Transfer to profit reserve	-	3,263,090	(3,263,090)	-
Proceeds from share issue (net of transaction costs)	-	-	-	-
Share based payments	100,000	-	-	100,000
Dividends paid	-	(1,202,105)	(601,052)	(1,803,157)
<b>Total transactions with owners in their capacity as owners</b>	100,000	2,060,985	(3,864,142)	(1,703,157)
<b>Balance as at 30 June 2018</b>	<b>4,601,987</b>	<b>2,060,985</b>	<b>7,974,115</b>	<b>14,637,087</b>

  

2017	Contributed equity \$	Reserves \$	Retained earnings \$	Total Equity \$
Balance as at 1 July 2016	2,083,675	-	6,358,652	8,442,327
Profit for the year	-	-	6,099,229	6,099,229
Total comprehensive income for the year	-	-	6,099,229	6,099,229
<b>Transactions with owners in their capacity as owners</b>				
Transfer to profit reserve	-	-	-	-
Proceeds from share issue (net of transaction costs)	2,418,312	-	-	2,418,312
Share based payments	-	-	-	-
Dividends paid	-	-	(5,839,694)	(5,839,694)
<b>Total transactions with owners in their capacity as owners</b>	2,418,312	-	(5,839,694)	(3,421,382)
<b>Balance as at 30 June 2017</b>	<b>4,501,987</b>	<b>-</b>	<b>6,618,187</b>	<b>11,120,174</b>

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



CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
<b>Cash flow from operating activities</b>			
Receipts from customers		16,370,369	18,448,910
Payments to suppliers and employees		(10,322,693)	(10,209,264)
Interest received		193,956	149,846
Income tax paid		(2,074,973)	(1,158,176)
<b>Net cash provided by operating activities</b>	19(b)	4,166,659	7,231,316
<b>Cash flow from investing activities</b>			
Payment for plant and equipment		(9,760)	(22,419)
Proceeds from the sale of plant and equipment		1,670	-
Payment for trademarks and licenses		-	(820)
<b>Net cash used in investing activities</b>		(8,090)	(23,239)
<b>Cash flow from financing activities</b>			
Proceeds from share issue (net of costs)		-	2,400,492
Dividends paid		(1,803,157)	(5,839,694)
<b>Net cash used in financing activities</b>		(1,803,157)	(3,439,202)
<b>Net increase in cash and cash equivalents</b>		2,355,412	3,768,875
Cash at beginning of financial year		13,370,620	9,601,745
<b>Cash and cash equivalents at end of the year</b>	19(a)	15,726,032	13,370,620

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Basis of preparation of the financial report

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report includes financial statements for K2 Asset Management Holdings Ltd, K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd as a consolidated entity. K2 Asset Management Holdings Ltd is a company limited by shares, incorporated and domiciled in Australia. K2 Asset Management Holdings Ltd is a for profit entity for the purpose of preparing financial statements. As of the date of this report, KII Pty Ltd & Trusuper Pty Ltd have had no operations.

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

#### *Compliance with IFRS*

The consolidated financial statements of K2 Asset Management Holdings Ltd also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical Cost Convention*

The 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.

#### *Going concern*

The financial report has been prepared on a going concern basis.

#### *Critical accounting estimates and judgements*

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

#### *Fair value measurement*

For financial reporting purposes, 'fair value' is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants (under current market conditions) at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

When estimating the fair value of an asset or liability, the entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to valuation techniques used to measure fair value are categorised into three levels according to the extent to which the inputs are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

### (b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which K2 Asset Management Holdings Ltd controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 24(a).

The financial statements of 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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**(c) Revenue recognition**

Revenue from management and performance fees is recognised when the right to receive arises based on the conditions in the K2 Funds' constitutions. Management fees are calculated at between 1.28% and 2.00% (excluding GST) of the relevant fund's daily net asset value before performance fees and is payable monthly. Performance fees are based upon the relevant fund's investment return over and above a specified high water mark and, if applicable, a performance hurdle.

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks and short-term deposits with an original maturity of three months or less held at call with financial institutions.

**(e) Plant and equipment**

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation or amortisation.

*Computer and office equipment*

Computer and office equipment is measured on a cost basis.

*Leasehold improvements*

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements and amortised over the estimated useful lives of the improvements.

*Depreciation*

The depreciable amounts of all other fixed assets are depreciated over their estimated useful lives commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements	10% - 20%	Straight line
Computer and office equipment	10% - 40%	Straight line and diminishing value

**(f) Intangibles**

Patents, trademarks and licences are recognised at cost at acquisition. Patents and trademarks have a finite life and are carried at cost less accumulated amortisation and any impairment losses. They are amortised on a straight line basis over their estimated useful lives, which range from 10 to 15 years.

**(g) Impairment of non-financial assets**

Assets with an indefinite useful life are not amortised but are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(h) Taxes**

Current income tax expense or benefit is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

*Tax Consolidation*

K2 Asset Management Holdings Ltd and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group has also entered a tax funding arrangement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. KII Pty Ltd and Trusuper Pty Ltd have had no operations since their incorporation on 12 August 2015 and 19 August 2016 respectively.

**(i) Employee Benefits**

Liabilities arising in respect of wages and salaries, performance bonuses, annual leave and any other employee benefits expected to be settled wholly within twelve months of the reporting date are measured at their undiscounted amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions made by the Company to an employee superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in a future payment is available.

**(j) Financial Instruments**

*Classification*

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its financial instruments at initial recognition.

*Financial Assets*

Financial assets include loans and receivables. Loans and receivables are measured at amortised cost and tested for impairment.

*Investments*

Non-listed investments classified as available for sale, for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

*Financial Liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(k) Foreign Currencies**

*Functional and presentation currency*

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional currency.

*Transactions and Balances*

Transactions in foreign currencies of entities within the consolidated entity are converted into the functional currency at the rate of exchange ruling at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are converted using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

**(l) Leases**

*Operating Leases*

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(m) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(n) Comparatives**

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

**(o) Rounding amounts**

The parent entity and the consolidated entity have applied relief available under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and accordingly, the amounts in the consolidated financial statements and in the directors report have been rounded to the nearest dollar.

**(p) Adoption of new and amended accounting standards that are first operative at 30 June 2018**

There have been no new and amended accounting standards effective for the financial year beginning 1 July 2017 that have affected any amounts recorded in the current or prior year.

**(q) Accounting standards and interpretations issued but not yet operative at 30 June 2018**

A number of new standards, amendments to standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretation is set out below:

*AASB 9 Financial Instruments (effective for reporting periods commencing on or after 1 January 2018)*

The aim of this standard is to achieve the following:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income;
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

An assessment of the potential impact of this standard has been completed and due to the nature of the consolidated group's assets and liabilities, these changes are not expected to cause significant changes to the financial position of the group.

*AASB 15 Revenue from contracts with customers (effective for reporting periods beginning on or after 1 January 2018)*

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

AASB 15 provides a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of a defined five step model.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Based on the impact assessment undertaken, the changes in revenue recognition requirements in AASB 15 are not expected to cause significant changes to the timing and amount of revenue recorded in the financial statements.

*AASB 16: Leases (effective for reporting periods beginning on or after 1 January 2019)*

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis.

Based on the impact assessments undertaken AASB 16 will affect the accounting of the consolidated entity's operating leases. At reporting date, the group had \$464,647 in non-cancellable operating lease commitments which relate to the lease of the consolidated entity's registered office. On transition and moving forward, the entity will recognise right of use assets and corresponding liabilities for the principal amount of lease payments and amortisation and interest expenses will replace operating lease expenses in the Statement of Comprehensive Income. Changes to the classification of the principal component of lease payments from operating to financing payments will also be noted in the Statement of Cash Flows. Refer to Note 20 for further details of lease commitments.

No other standards and interpretations have been issued at the reporting date that are expected to have an impact on the consolidated entity.

## NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The group makes certain estimates and assumptions concerning the future which, by definition, will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

### (a) Impairment of non-financial assets other than goodwill

The Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Company and to a particular asset that may lead to impairment. These include business performance, technology, economic and political environments and future expectations. If an impairment trigger exists then the recoverable amount of the asset is to be evaluated.

### (b) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

### (c) Employee benefits provisions

Employee benefits provisions consist of the provision for annual leave and long service leave entitlements and performance bonuses.

As discussed in note 1(i), the liabilities in respect of employee benefits expected to be settled wholly within twelve months of the reporting date are measured at undiscounted amounts. The provision for long service leave and performance bonuses not expected to be settled wholly within twelve months are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees at reporting date. Management includes estimates of their discount rates and employee retention in calculating bonus provisions.

Refer to the remuneration report on page 8 for further details on the Company's remuneration policies.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 3: FINANCIAL RISK MANAGEMENT

The consolidated entity is exposed to a variety of direct and indirect financial risks comprising:

- (a) market risk;
- (b) interest rate risk;
- (c) credit risk;
- (d) liquidity risk; and
- (e) fair values.

The board of directors has overall responsibility for identifying and managing operational and financial risks via a number of management policies and procedures.

#### (a) Market Risk

The market risks in relation to the financial instruments of the consolidated entity are minimal, however, the consolidated entity is exposed to market risk through the impact of these risks on the investment funds for which K2 Asset Management Ltd acts as investment manager.

Unfavourable economic movements, both globally and within the markets in which the funds operate, can have a significant impact on the investment returns of the fund and the funds under management (FUM). Examples of potential market events that could impact the performance of the funds and FUM include:

- currency fluctuations
- changes in official interest rates
- government policy including fiscal and monetary policies
- volatility and changes of sentiment in the stock market
- local and international economic instability
- inflation
- unemployment
- political change
- war and terrorism

FUM directly correlates to the level of management fees received by the Company due to management fees being based on a percentage of FUM. FUM can be impacted by a large number of factors including the market events listed above. Performance risk of the investment funds, loss of key personnel, competition within the industry, as well as other unlisted possibilities, are also events that can impact FUM.

Performance fees are paid to K2 Asset Management Ltd if the investment funds meet certain performance criteria. A period of negative performance will significantly impact the level of performance fees paid to the Company and hence affect total profitability of the consolidated entity.

To illustrate the above, if global markets fell by 5% and in turn FUM fell by 5% then management fees would decrease by 5% and it would be unlikely that a performance fee would be received. Please note that this example assumes a uniform decline in all global markets which is unlikely to occur.

Although market volatility is outside the direct control of K2 Asset Management Ltd, in its role as investment manager the Company aims to mitigate these risks by implementing macroeconomic analysis to ensure market influences are considered when making investment decisions, diversifying investments across sectors and geographic regions and following established investment guidelines.



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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 3: FINANCIAL RISK MANAGEMENT (CONT'D)

#### (b) Interest Rate Risk

At 30 June 2018 the consolidated entity had no exposure to interest bearing liabilities. As such interest rate risk does not pose a significant risk with the only exposure being to financial assets, specifically cash held at call and in term deposits. The consolidated entity invests its free cash in term deposits in order to mitigate interest rate fluctuations. The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non-interest bearing		Total carrying amount as per Balance Sheet		Weighted average effective interest rate	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<i>(i) Financial assets</i>										
Cash	6,496,547	7,130,381	9,229,321	6,239,908	164	331	15,726,032	13,370,620	1.5%	1.5%
Receivables and other current assets	-	-	-	-	824,945	2,159,022	824,945	2,159,022	-	-
Employee share loans	-	-	-	-	578,605	377,778	578,605	377,778	-	-
Total financial assets	6,496,547	7,130,381	9,229,321	6,239,908	1,403,714	2,537,131	17,129,582	15,907,420	-	-
<i>(ii) Financial liabilities</i>										
Trade creditors	-	-	-	-	52,838	48,585	52,838	48,585	-	-
Other creditors	-	-	-	-	475,782	974,930	475,782	974,930	-	-
Total financial liabilities	-	-	-	-	528,620	1,023,515	528,620	1,023,515	-	-



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 3: FINANCIAL RISK MANAGEMENT (CONT'D)**

**(c) Credit risk exposures**

Credit risk for financial instruments arises from the potential failure by counterparties to the contract in meeting their obligations.

**(i) Trade receivables**

The maximum exposure to credit risk is the carrying amount of assets, net of any provisions for doubtful debts of those assets, as disclosed in the Consolidated Statement of Financial Position and Notes to the Financial Statements.

The consolidated entity has limited credit risk exposure as it has a small group of debtors, being the funds to which K2 Asset Management Ltd acts as investment manager. As the manager, the Company is able to exercise control over the investment funds and ensure fees are paid by each fund on a timely basis. Accordingly the directors consider the funds to be of high credit quality.

**(ii) Cash deposits**

Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks.

**(d) Liquidity risk**

Liquidity risk arises when there is an inability to meet both short and medium term financial obligations. This risk is mitigated via retaining a level of cash reserves that management deems appropriate, performing ongoing cash flow analysis and projecting and allowing for future potential liabilities. Free cash in excess of short term obligations is invested at call and in term deposits for varying maturity dates. All trade creditors and sundry creditors are payable as at 30 June 2018 and are expected to be paid within 30 days of this date.

**(e) Fair values**

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: REVENUE

	Notes	2018 \$	2017 \$
<b>Revenues from continuing operations</b>			
Management fees		5,904,284	9,334,426
Performance fees		7,641,846	7,280,556
Interest	(a)	211,203	142,463
Other		318,029	436,089
		<u>14,075,362</u>	<u>17,193,534</u>
 (a) Interest from:			
Other persons		211,203	142,463
		<u>211,203</u>	<u>142,463</u>

NOTE 5: PROFIT FROM CONTINUING OPERATIONS

	2018 \$	2017 \$
Profit from continuing operations before income tax has been determined after the following specific expenses:		
<b>Employee Benefits</b>		
Short-term benefits	5,217,140	6,427,945
Long-term benefits	(637)	106,120
Superannuation contributions	337,556	370,461
	<u>5,554,059</u>	<u>6,904,526</u>
<b>Depreciation and amortisation expense</b>		
Depreciation of computer and office equipment	36,712	43,609
Depreciation of leasehold improvements	1,345	5,648
	<u>38,057</u>	<u>49,257</u>
Amortisation of trademarks and licenses	648	604
	<u>38,705</u>	<u>49,861</u>
<b>Marketing expenses</b>		
Advertising	205,537	273,590
Travel expenses	119,193	151,945
Printing and stationery	19,849	26,972
	<u>344,579</u>	<u>452,507</u>
<b>Occupancy expenses</b>		
Rental and occupancy	429,569	568,790
Repairs and maintenance	24,500	22,702
	<u>454,069</u>	<u>591,492</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: INCOME TAX

	2018 \$	2017 \$
<b>(a) The components of tax expense:</b>		
Current tax	1,809,950	2,456,487
Deferred tax	179,167	172,159
Under/(over) provision in prior year	(4,345)	(6,212)
<i>Total income tax expense</i>	<u>1,984,772</u>	<u>2,622,434</u>
<b>(b) Deferred income tax (revenue)/expense included in income tax expense comprises:</b>		
(Increase)/decrease in deferred tax assets	179,167	172,159
	<u>179,167</u>	<u>172,159</u>
<b>(c) Deferred income tax related to items charge or credited directly to equity:</b>		
(Increase)/decrease in deferred tax assets (share issue costs)	-	(17,820)
	<u>-</u>	<u>(17,820)</u>
<b>(d) The prima facie tax, using tax rates applicable in the country of operation, on profit before income tax is reconciled to the income tax expense as follows:</b>		
Prima facie income tax payable on profit before income tax at 27.5% (2017: 30.0%)	1,981,332	2,616,499
<i>Add tax effect of:</i>		
Non-deductible entertainment	7,785	12,147
	<u>1,989,117</u>	<u>2,628,646</u>
<i>Less tax effect of:</i>		
Under/(over) provision in prior year	(4,345)	(6,212)
Income tax expense attributable to profit	<u>1,984,772</u>	<u>2,622,434</u>
<i>Current tax (receivable)/payable</i>		
Balance at the beginning of the year	1,189,314	(102,785)
Income tax	1,809,950	2,456,487
Tax payments	(2,074,973)	(1,158,176)
Under/(over) provision in prior year	(4,345)	(6,212)
Balance at the end of the year	<u>919,946</u>	<u>1,189,314</u>
<i>The deferred tax assets balance comprises:</i>		
Accruals	22,904	18,300
Employee benefits	278,286	434,034
Rent incentive liability	29,972	53,475
Share issue costs	9,801	14,256
Other	-	65
Balance of deferred tax assets	<u>340,963</u>	<u>520,130</u>

**(e) Changes in applicable tax rate**

The income tax rate for the current year is 27.5% (2017: 30.0%) and has been reflected in the information above.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 7: DIVIDENDS ON ORDINARY SHARES

	2018 \$	2017 \$
<b>(a) Dividends paid or declared</b>		
August 2017 final dividend paid at 0.25 cents (2017: 0.5 cents) per share 100% franked (2017: 100%) at the Australian tax rate of 27.5% (2017: 30.0%)	601,052	1,167,940
February 2018 interim dividend paid at 0.5 cents (2017: 2.0 cents) per share 100% franked (2017: 100%) at the Australian tax rate of 27.5% (2017: 30.0%)	1,202,105	4,671,754
	<u>1,803,157</u>	<u>5,839,694</u>
<b>(b) Dividends declared after year end</b>		
Proposed dividends not recognised at year end at nil cents per share (2017: 0.25 cents) 0% franked (2017: 100% franked) at the Australian tax rate of 27.5% (2017: 27.5%)	-	601,052
<b>(c) Franking credit balance</b>		
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends	5,602,359	4,223,117

NOTE 8: CASH

	2018 \$	2017 \$
Cash on hand	164	331
Cash at bank	6,496,547	7,130,381
Cash on deposit	9,229,321	6,239,908
	<u>15,726,032</u>	<u>13,370,620</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 9: RECEIVABLES

	2018 \$	2017 \$
Trade receivables	559,747	1,962,388
Other receivables	51,902	44,452
	<u>611,649</u>	<u>2,006,840</u>

**(a) Provision for impairment**

Trade receivables are non-interest bearing with 30 days terms. No impairment loss has been recognised in the current or prior year. All trade receivables are expected to be received within trading terms and have been received as of the date of this report.

NOTE 10: OTHER CURRENT ASSETS

	2018 \$	2017 \$
Prepayments	213,297	152,182
Employee share loans	68,200	53,333
	<u>281,497</u>	<u>205,515</u>

NOTE 11: PLANT AND EQUIPMENT

	2018 \$	2017 \$
<b>Leasehold improvements</b>		
At cost	97,320	97,320
Accumulated depreciation	(95,467)	(94,122)
	<u>1,853</u>	<u>3,198</u>
<b>Computer and office equipment</b>		
At cost	858,195	849,626
Accumulated depreciation	(825,256)	(789,735)
	<u>32,939</u>	<u>59,891</u>
	<u>34,792</u>	<u>63,089</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11: PLANT AND EQUIPMENT (CONT'D)

**Movements in carrying amounts**

Movement in the carrying amounts for each class of plant and equipment between beginning and end of the year.

<b>2018</b>	<b>Leasehold Improvements \$</b>	<b>Computer and Office Equipment \$</b>	<b>Total \$</b>
Balance at the beginning of the year	3,198	59,891	63,089
Additions	-	9,760	9,760
Disposals	-	-	-
Depreciation expense	(1,345)	(36,712)	(38,057)
Carrying amount at 30 June 2018	1,853	32,939	34,792

  

<b>2017</b>	<b>Leasehold Improvements \$</b>	<b>Computer and Office Equipment \$</b>	<b>Total \$</b>
Balance at the beginning of the year	8,090	81,837	89,927
Additions	756	21,663	22,419
Disposals	-	-	-
Depreciation expense	(5,648)	(43,609)	(49,257)
Carrying amount at 30 June 2017	3,198	59,891	63,089

NOTE 12: INTANGIBLE ASSETS

	<b>2018 \$</b>	<b>2017 \$</b>
Trademarks and licenses at costs	6,486	6,486
Accumulated amortisation	(4,207)	(3,559)
	2,279	2,927

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: OTHER NON-CURRENT ASSETS

	2018 \$	2017 \$
Other financial assets – available for sale non listed investments at cost	27,000	27,000
Employee share loans	510,405	324,445
	<u>537,405</u>	<u>351,445</u>

NOTE 14: PAYABLES

	2018 \$	2017 \$
Current payables		
Trade creditors	52,838	48,585
Sundry creditors and accruals	366,792	796,681
Current rent incentive	86,330	69,258
	<u>505,960</u>	<u>914,524</u>
Non-current payables		
Non-current rent incentive	22,660	108,991
	<u>22,660</u>	<u>108,991</u>
	<u>528,620</u>	<u>1,023,515</u>

NOTE 15: PROVISIONS

	2018 \$	2017 \$
Current employee benefits	1,402,762	3,098,809
	<u>1,402,762</u>	<u>3,098,809</u>
Non-current employee benefits	46,202	88,754
	<u>46,202</u>	<u>88,754</u>
Aggregate employee benefits liability	<u>1,448,964</u>	<u>3,187,563</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: CONTRIBUTED EQUITY

	2018 \$	2017 \$
<b>(a) Issued and paid up capital</b>		
Ordinary shares fully paid	4,601,987	4,501,987
	<u>4,601,987</u>	<u>4,501,987</u>

(b) Movements in shares on issue	Consolidated Equity 2018		Consolidated Equity 2017	
	No. of Shares	\$	No. of Shares	\$
Beginning of the year	28,067,233	4,501,987	21,234,201	2,083,675
<i>Issued during the year</i>				
Share based payments	664,450	100,000	-	-
Share issue	-	-	6,833,032	2,459,892
Costs relating to share issue (net of tax)	-	-	-	(41,580)
End of the year	<u>28,731,683</u>	<u>4,601,987</u>	<u>28,067,233</u>	<u>4,501,987</u>

	Parent Equity 2018		Parent Equity 2017	
	No. of Shares	\$	No. of Shares	\$
Beginning of the year	240,420,746	115,912,903	233,587,714	113,494,591
<i>Issued during the year</i>				
Share based payments	664,450	100,000	-	-
Share issue	-	-	6,833,032	2,459,892
Costs relating to share issue (net of tax)	-	-	-	(41,580)
End of the year	<u>241,085,196</u>	<u>116,012,903</u>	<u>240,420,746</u>	<u>115,912,903</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**(c) Capital management**

When managing capital, the directors' objective is to ensure the consolidated entity continues as a going concern as well as maintaining optimal returns to shareholders and benefits for other stakeholders. Consideration is also given to the Australian Financial Services Licence requirements of its subsidiary, K2 Asset Management Ltd. This is achieved through the monitoring of historical and forecast performance and cash flows.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: RESERVES

	2018 \$	2017 \$
Profits reserve	2,060,985	-
	<u>2,060,985</u>	<u>-</u>
<i>Movement in reserve</i>		
Balance at the beginning of the year	-	-
Transfer to profits reserve	3,263,090	-
Dividend paid	(1,202,105)	-
Balance at the end of the year	<u>2,060,985</u>	<u>-</u>

NOTE 18: RETAINED PROFITS

	2018 \$	2017 \$
Retained profits at the beginning of the year	6,618,187	6,358,652
Net profit attributable to members of the consolidated entity	5,220,070	6,099,229
Dividends paid	(601,052)	(5,839,694)
Transfer to profits reserve	(3,263,090)	-
Retained profits at the end of the financial year	<u>7,974,115</u>	<u>6,618,187</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: CASH FLOW INFORMATION

	2018 \$	2017 \$
<b>(a) Reconciliation of cash</b>		
For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts.		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items as follows:		
Cash on hand	164	331
Cash at bank	6,496,547	7,130,381
Deposits with financial institutions	9,229,321	6,239,908
	<u>15,726,032</u>	<u>13,370,620</u>
<b>(b) Reconciliation of cash flow from operations with profit/(loss) from ordinary activities after income tax</b>		
Profit from ordinary activities after income tax	5,220,070	6,099,229
<b>Non-cash flows in profit from ordinary activities</b>		
Amortisation	648	604
Depreciation	38,057	49,257
Profit on sale of plant and equipment	(1,670)	-
Share based payments	100,000	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in receivables	1,395,191	(776,897)
(Increase)/decrease in other assets	(261,942)	(354,334)
Increase/(decrease) in payables	(494,895)	420,691
Increase/(decrease) in income tax payable	(269,368)	1,292,099
(Increase)/decrease in deferred taxes	179,167	172,159
Increase/(decrease) in provisions	(1,738,599)	328,508
Net cash flow from operating activities	<u>4,166,659</u>	<u>7,231,316</u>

**(c) Restriction over cash**

The consolidated entity has a term deposit of \$229,321 (2017: \$229,321) as a guarantee over the office rental at Level 32, 101 Collins Street, Melbourne, Victoria. An additional amount of nil (2017: \$10,588) was held in a term deposit as a guarantee over the office rental at 1/20 Duke Street, Sunshine Beach, Queensland. During the year the bank guarantee over the office rental in Queensland has been returned to the Company after the reassignment of the lease to a third party.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: COMMITMENTS AND CONTINGENT LIABILITIES

	2018 \$	2017 \$
<b>Lease expenditure commitments</b>		
<b>(a) Operating leases (non-cancellable):</b>		
The consolidated entity leases office facilities in Melbourne under an operating lease. The property lease for the consolidated entity's registered office at Level 32, 101 Collins Street is a non-cancellable lease with a five year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require minimum lease payments to be increased by 4% per annum. An option exists to renew the lease at the end of the five year term for an additional term of three years. The five year term expires on 30 September 2019.		
In the prior period, a three year lease for corporate entertainment facilities ended in March 2017 and an agreement for the lease of office facilities in Queensland ended in June 2017 after the lease was reassigned through a legal agreement with a third party.		
(ii) Minimum lease payments		
Not later than one year	370,378	356,133
Later than one year and not later than five years	94,269	464,647
Later than five years	-	-
Aggregate lease expenditure contracted for at reporting date	464,647	820,780

NOTE 21: EARNINGS PER SHARE

	2018 \$	2017 \$
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	5,220,070	6,099,229
Earnings used in calculating basic and diluted earnings per shares	5,220,070	6,099,229
	<b>2018</b>	<b>2017</b>
	<b>No. of Shares</b>	<b>No. of Shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	240,475,358	235,291,292
Effect of dilutive securities:		
Employee special rights and share based payments	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	240,475,358	235,291,292

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURE

	2018 \$	2017 \$
Summary of key management personnel compensation as disclosed in the remuneration report.		
Short-term benefits	1,792,071	2,182,752
Long-term benefits paid or due	224,943	319,041
Superannuation	78,447	70,708
	<u>2,095,461</u>	<u>2,572,501</u>
Maximum performance based long-term incentives payable	-	236,339

NOTE 23: AUDITORS REMUNERATION

	2018 \$	2017 \$
Amounts received or due and receivable by Pitcher Partners for:		
An audit or review of the financial report of the Company and any other entity of the consolidated group	98,000	96,453
Other non-audit services - Tax consulting services	-	1,810
Other non-audit services - Other consulting services	14,200	1,800
	<u>112,200</u>	<u>100,063</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 24: RELATED PARTY DISCLOSURES**

(a) The consolidated financial statements include the financial statements of K2 Asset Management Holdings Ltd and its controlled entities K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd.

	Country of Incorporation	Percentage Owned	
		2018	2017
<i>Parent Entity</i>			
K2 Asset Management Holdings Ltd	Australia	-	-
<i>Subsidiaries</i>			
K2 Asset Management Ltd	Australia	100%	100%
KII Pty Ltd *	Australia	100%	100%
Trusuper Pty Ltd **	Australia	100%	100%

\* KII Pty Ltd was incorporated on 12 August 2015 and has had no operations as of the date of this report.

\*\* Trusuper Pty Ltd was incorporated on 19 August 2016 and has had no operations as of the date of this report.

(b) The following lists the transactions entered into with related parties for the relevant financial year:

Wholly-owned group transactions were as follows:

- Dividends declared or paid by K2 Asset Management Ltd to K2 Asset Management Holdings Ltd were \$3,756,576 (2017: \$4,419,256).
- Loan provided by parent to K2 Asset Management Ltd for tax related balances. The balance as at 30 June 2018 was \$814,104 (2017: \$1,077,297).
- Loan provided by parent to K2 Asset Management Ltd during the year for dividends declared but not paid and operational expenditure paid by the parent on behalf of its subsidiary. The balance as at 30 June 2018 was \$98,799 (2017: \$11,269).
- All loans are at call, are non-interest bearing and are measured at amortised cost using the effective interest rate method.
- Details of all remuneration paid to directors are disclosed in the Directors' Report.
- K2 Asset Management Ltd provides investment management services to related party unit trusts – the K2 Asian Absolute Return Fund, the K2 Australian Absolute Return Fund, the K2 Select International Absolute Return Fund, the K2 Global High Alpha Fund, the K2 Australian Small Cap Fund and the K2 Global Equities 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 high water mark and, if applicable, a performance hurdle. Total related party revenue of \$13,864,159 (2017: \$17,051,071) has been recognised in the Statement of Comprehensive Income for the year ended 30 June 2018. Of this revenue \$5,904,284 (2017: \$9,334,426) related to management fees and \$7,641,846 (2017: \$7,280,556) to performance fees. Please refer to Note 4 for further information.
- As at 30 June 2018, K2 Asset Management has a current receivable of \$559,747 (2017: \$1,962,388) for investment management services provided to the K2 Funds.
- As at 30 June 2018, the consolidated entity has a current receivable of \$68,200 (2017: \$53,333) and a non-current receivable of \$510,405 (2017: \$324,445) 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, dividend payments and share sales relating to the shares purchased. Any outstanding balance must be repaid to the consolidated entity upon the employees ceasing to be employed by the group. The loans are interest free and are unsecured.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 24: RELATED PARTY DISCLOSURES (CONT'D)**

- Fund operating expenses of \$27,557 (2017: nil) were paid on behalf of the K2 Funds to cover ASX fees, custodian fees, administration fees, unit registry costs and other fees and expenses relating to the administration and K2's role as responsible entity of the Funds.
- No key management personnel or their related entities were party to any transactions with the consolidated entity during the year other than those disclosed in this report.
- There were no transactions with other related parties during the year.

**NOTE 25: PARENT ENTITY DETAILS**

	Notes	2018 \$	2017 \$
Summarised presentation of the parent entity, K2 Asset Management Holdings Ltd, financial statements are as follows:			
<b>(a) Summarised Statement of Financial Position</b>			
<b>Assets</b>			
Current assets		4,781,401	3,506,350
Non-current assets	(c)	71,520,971	113,715,021
Total assets		76,302,372	117,221,371
<b>Liabilities</b>			
Current liabilities		929,978	1,199,346
Total liabilities		929,978	1,199,346
<b>Net Assets</b>		75,372,394	116,022,025
<b>Equity</b>			
Share capital		116,012,903	115,912,903
Reserves	(c)	(40,639,015)	-
Retained earnings		(1,494)	109,122
<b>Total Equity</b>		75,372,394	116,022,025
<b>(b) Summarised Statement of Comprehensive Income</b>			
Profit for the year		3,753,526	4,385,714
Total comprehensive income for the year		3,753,526	4,385,714

**(c) Investment Revaluation Reserve**

The carrying value of K2 Asset Management Holdings Ltd's investment in K2 Asset Management Ltd is reviewed on an ongoing basis by the directors' of the consolidated entity. As a result of this continued analysis an amount of (\$42,700,000) (2017: nil) has been recognised in the Investment Revaluation Reserve as at 30 June 2018 as a decrease in the fair value of this asset. The value of the parent company's investment in its subsidiary does not impact the results of the consolidated entity as all amounts are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 26: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the consolidated entity or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the consolidated entity.

## NOTE 27: SEGMENT INFORMATION

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

In 2018 the amount of revenue derived from each of the funds where the revenue is greater than 10% of the consolidated entity's total revenue were:

K2 Australian Absolute Return Fund	7,552,979
K2 Select International Absolute Return Fund	2,025,800
K2 Global High Alpha Fund	1,926,246
Total	<u>11,505,025</u>

In 2017 the amount of revenue derived from each of the funds where the revenue is greater than 10% of the consolidated entity's total revenue were:

K2 Australian Absolute Return Fund	10,713,999
K2 Select International Absolute Return Fund	2,909,832
Total	<u>13,623,831</u>

## NOTE 28: 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

## NOTE 29: REGISTER OF SECURITIES

The register of securities is kept at:

Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000

Phone: 1300 737 760

## DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 22 to 47 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards 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 30 June 2018 and of its performance for the year ended on that date; and
- (c) As stated in Note 1(a), the consolidated financial statements also comply with International Financial Reporting Standards.

In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the managing director and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2018.

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



**Campbell Neal**  
Director



**Hollie Wight**  
Director

Melbourne  
28 August 2018



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

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

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of K2 Asset Management Holdings Ltd "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the 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 financial performance for the year then ended; 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

*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.

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

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

Key Audit Matter	How our audit addressed the key audit matter
<p>Valuation and completeness of the performance bonus provision and accuracy of related employee benefit expense</p> <p><i>Refer to page 8 (remuneration policies), page 28 (note 1(i)) (accounting policy), page 30 (critical accounting estimates and judgements) and note 15 (financial disclosures).</i></p>	
<p>We focused on this area as a key audit matter due to:</p> <p>Performance bonus provision is stated at fair value, based on expected future payments. The performance bonus provision and corresponding employee benefits expense balance is subject to estimation and judgement based on internal assumptions.</p> <p>The key assumptions include the expected performance of employees and the likelihood of them remaining employed at the Company, discount rates used in the calculation, and ensuring the performance bonus pool is in line with the Board's maintained cost to income ratio of 50%.</p> <p>Given the level of judgement involved in these assumptions and the sensitivity of the balance, this is an area considered to be a key audit matter.</p> <p>Disclosures relating to recognition of the performance bonus provision and its associated expense can be found at Note 2 (c).</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"><li>• Performing a sensitivity analysis on the deferred portion of the performance bonus provision recognised at year end;</li><li>• Evaluating the appropriateness of the assumptions used to value the performance bonus provision, including expected payouts and discount rates;</li><li>• Comparing discount rates used in the calculation to historical patterns of payouts;</li><li>• Performing a mathematical recalculation of the performance bonus provision;</li><li>• Recalculating the cost to income ratio to determine whether the performance bonus pool is adequate;</li><li>• Testing a sample of bonus payments to determine appropriateness of expense and provision recognised;</li><li>• Reviewing the appropriateness of the disclosures;</li><li>• Obtaining written representation of Board determinations.</li></ul>

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

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

*Other information*

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.

*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 ability of the Group 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 has 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.



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

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of K2 Asset Management Holdings Ltd, 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.



**B J BRITTEN**  
Partner

28 August 2018



**PITCHER PARTNERS**  
Melbourne