

K2 ASSET MANAGEMENT HOLDINGS LTD

AND CONTROLLED ENTITIES

ABN 59 124 636 782

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

This half-year financial report is to be read  
in conjunction with the financial report for  
the year ended 30 June 2018

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

FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

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## DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entity consisting of K2 Asset Management Holdings Ltd and the entities it controlled, K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd (Consolidated Entity), for the half-year ended 31 December 2018 and auditor's review report thereon. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

### DIRECTORS

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

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

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

### REVIEW OF OPERATIONS

The loss of the Consolidated Entity for the half-year after providing for income tax was \$558,123 (2017: profit \$5,219,743).

Revenue from management and performance fees was \$2,434,558 (2017: \$2,979,079) and \$10,768 (2017: \$7,593,172) respectively. Total revenue amounted to \$2,668,526 (2017: \$10,836,365). Revenue decreased from the prior comparative period due to a decrease in management and performance fees paid or payable by the K2 Funds to K2 Asset Management Ltd in its capacity as investment manager. Please refer to the Condensed Consolidated Statement of Comprehensive Income on page 6 for further details.

The table below lists the Funds for which K2 Asset Management Ltd acts as investment manager along with their respective financial year to date performance and Funds Under Management (FUM) as at 31 December 2018:

K2 Fund	Financial year to date fund performance*	Financial year to date index performance #	FUM \$million
K2 Australian Absolute Return Fund	-11.3%	-7.3%	197.7 AUD
K2 Select International Absolute Return Fund	-2.3%	-4.5%	37.7 AUD
K2 Asian Absolute Return Fund	-7.5%	-5.6%	18.9 AUD
K2 Global High Alpha Fund	-7.7%	-4.5%	31.4 AUD
K2 Global Equities Fund	-8.6%	-4.5%	8.6 AUD
K2 Australian Small Cap Fund	-10.7%	-12.7%	24.0 AUD
<b>Total</b>			<b>318.3 AUD</b>

The above information is unaudited. \* Year to date figures are based on the 6 months ended 31 December 2018 and are net of all fees. # The K2 Australian Absolute Return Fund is compared to the ASX All Ordinaries Accumulation Index, the K2 Asian Absolute Return Fund is compared to the MSCI AC Asia ex Japan TR Net Index (AUD), the K2 Select International Absolute Return Fund, the K2 Global High Alpha Fund and the K2 Global Equities Fund are compared to the MSCI AC World TR Net Index (AUD) and the K2 Australian Small Cap Fund is compared to the S&P/ASX Small Ordinaries Accumulation Index.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## DIRECTORS' REPORT (CONT'D)

### ROUNDING OF AMOUNTS

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

### AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the directors.



**Campbell Neal**  
**Director**



**Hollie Wight**  
**Director**

Melbourne  
13 February 2019

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

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

In relation to the independent auditor's review for the half-year ended 31 December 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 APES 110 *Code of Ethics for Professional Accountants*.

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



K L BYRNE  
Partner

13 February 2019



PITCHER PARTNERS  
Melbourne

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Half-year	
		31 December 2018 \$	31 December 2017 \$
Revenue	3	2,668,526	10,836,365
Employee benefits expense	4	(2,651,445)	(3,004,271)
Depreciation and amortisation expenses		(14,571)	(20,603)
Marketing expenses	4	(134,197)	(194,266)
Occupancy expenses		(219,025)	(225,054)
Professional expenses		(109,785)	(101,859)
Fund operating expenses		(147,690)	-
Technology expenses		(76,935)	(74,547)
Other expenses		(10,403)	(15,051)
		(3,364,051)	(3,635,651)
<b>Profit/(loss) before income tax</b>		<b>(695,525)</b>	<b>7,200,714</b>
Income tax benefit/(expense)		137,402	(1,980,971)
<b>Total comprehensive income for the half-year</b>		<b>(558,123)</b>	<b>5,219,743</b>
Basic earnings per share (cents per share)		(0.23)	2.17
Diluted earnings per share (cents per share)		(0.23)	2.17

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018

	31 December 2018	30 June 2018
	\$	\$
<b>Current Assets</b>		
Cash and cash equivalents	13,462,235	15,726,032
Receivables	515,877	611,649
Current tax receivable	73,670	-
Other current assets	231,366	281,497
<b>Total Current Assets</b>	14,283,148	16,619,178
<b>Non-current Assets</b>		
Plant and equipment	30,836	34,792
Intangible assets	2,423	2,279
Deferred tax assets	478,365	340,963
Other non-current assets	605,605	537,405
<b>Total Non-current Assets</b>	1,117,229	915,439
<b>Total Assets</b>	15,400,377	17,534,617
<b>Current Liabilities</b>		
Trade and other payables	335,088	505,960
Current tax payable	-	919,946
Provisions	927,662	1,402,762
<b>Total Current Liabilities</b>	1,262,750	2,828,668
<b>Non-current Liabilities</b>		
Provisions	52,784	46,202
Other non-current liabilities	-	22,660
<b>Total Non-current Liabilities</b>	52,784	68,862
<b>Total Liabilities</b>	1,315,534	2,897,530
<b>Net Assets</b>	14,084,843	14,637,087
<b>Equity</b>		
Share capital	4,601,987	4,601,987
Reserves	10,049,184	2,060,985
Retained earnings	(566,328)	7,974,115
<b>Total Equity</b>	14,084,843	14,637,087

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

2018	Contributed equity \$	Reserves \$	Retained earnings \$	Total Equity \$
Balance as at 1 July 2018	4,601,987	2,060,985	7,974,115	14,637,087
Loss for the period	-	-	(558,123)	(558,123)
Total comprehensive income for the half-year	-	-	(558,123)	(558,123)
<b>Transactions with owners in their capacity as owners</b>				
Transfer to profit reserve	-	7,982,320	(7,982,320)	-
Share based payments	-	5,879	-	5,879
Dividends paid	-	-	-	-
<b>Total transactions with owners in their capacity as owners</b>	-	7,988,199	(7,982,320)	5,879
<b>Balance as at 31 December 2018</b>	<b>4,601,987</b>	<b>10,049,184</b>	<b>(566,328)</b>	<b>14,084,843</b>

2017	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 period	-	-	5,219,743	5,219,743
Total comprehensive income for the half-year	-	-	5,219,743	5,219,743
<b>Transactions with owners in their capacity as owners</b>				
Transfer to profit reserve	-	3,864,142	(3,864,142)	-
Share based payments	-	-	-	-
Dividends paid	-	-	(601,052)	(601,052)
<b>Total transactions with owners in their capacity as owners</b>	-	3,864,142	(4,465,194)	(601,052)
<b>Balance as at 31 December 2017</b>	<b>4,501,987</b>	<b>3,864,142</b>	<b>7,372,736</b>	<b>15,738,865</b>

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



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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Notes	Half-year	
	31 December 2018	31 December 2017
	\$	\$
<b>Cash flow from operating activities</b>		
Receipts from customers	2,856,612	5,483,980
Payments to suppliers and employees	(4,242,238)	(6,186,451)
Interest received	126,204	92,691
Income tax paid	(993,616)	(1,485,547)
<b>Net cash used in operating activities</b>	<b>(2,253,038)</b>	<b>(2,095,327)</b>
<b>Cash flow from investing activities</b>		
Payment for plant and equipment	(10,359)	(5,734)
Proceeds from the sale of plant and equipment	-	1,670
Payment for trademarks	(400)	-
<b>Net cash used in investing activities</b>	<b>(10,759)</b>	<b>(4,064)</b>
<b>Cash flow from financing activities</b>		
Dividends paid	-	(601,052)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(601,052)</b>
<b>Net decrease in cash and cash equivalents held</b>	<b>(2,263,797)</b>	<b>(2,700,443)</b>
Cash and cash equivalents at beginning of the half-year	15,726,032	13,370,620
<b>Cash and cash equivalents at end of the half-year</b>	<b>13,462,235</b>	<b>10,670,177</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by K2 Asset Management Holdings Ltd during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

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

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

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

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

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

### (b) Summary of significant accounting policies

The half-year condensed consolidated financial report has been prepared using the same accounting policies as used in the annual financial report for the year ended 30 June 2018.

#### *New accounting standards and interpretations issued*

The Consolidated Entity has adopted any new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year.

In accordance with its application requirements, the Consolidated Entity adopted AASB 9 *Financial Instruments* from 1 July 2018. First time application of AASB 9 had no impact on the accounting for investments in financial assets. On initial application of AASB 9 the Consolidated Entity also adopted the expected credit loss model in AASB 9. As a consequence the carrying amounts and the nature of receivables on initial application of the expected credit loss model did not have a material impact on the carrying amounts of the Consolidated Entity's receivables.

The Consolidated Entity has also adopted AASB 15 *Revenue from Contract with Customers* from 1 July 2018. First time application of AASB 15 had no impact on the Consolidated Entity's net income, statement of financial position or cash flows.

### (c) Principles of consolidation

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

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

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

### (d) Fair values

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

### (e) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

**NOTE 2: SUBSEQUENT EVENTS**

There has been no matter or circumstance, which has arisen since 31 December 2018 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 31 December 2018, of the Consolidated Entity
- (b) the results of those operations, or
- (c) the state of affairs, in financial periods subsequent to 31 December 2018, of the Consolidated Entity.

**NOTE 3: REVENUE**

	Half-year	
	31 December 2018 \$	31 December 2017 \$
<b>Revenues from continuing operations</b>		
Management fees	2,434,558	2,979,079
Performance fees	10,768	7,593,172
Interest	128,168	96,288
Other	95,032	167,826
	2,668,526	10,836,365

**NOTE 4: SIGNIFICANT ITEMS**

	Half-year	
	31 December 2018 \$	31 December 2017 \$
<b>Employee Benefits</b>		
Short-term benefits	2,470,463	2,831,424
Long-term benefits	12,461	3,621
Superannuation contributions	168,521	169,226
	2,651,445	3,004,271
<b>Marketing expenses</b>		
Advertising	74,142	122,298
Travel expenses	44,103	60,024
Printing and stationery	15,952	11,944
	134,197	194,266

**NOTE 5: ISSUANCES OF EQUITY**

There were no issuances of equity during the half-year periods ended 31 December 2018 and 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

**NOTE 6: SEGMENT INFORMATION**

The Consolidated Entity operates solely within Australia within the funds management industry.

**NOTE 7: DIVIDENDS ON ORDINARY SHARES**

	Half-year	
	31 December 2018	31 December 2017
	\$	\$
<b>(a) Dividends paid</b>		
Dividend paid at nil cents per share (2017: 0.25 cents) 100% franked (2017: 100% franked) at the Australian tax rate of 27.5% (2017: 27.5%)	-	601,052
<b>(b) Dividends declared after half-year end</b>		
Proposed dividends not recognised for the half-year ended 31 December 2018 at nil cents per share (2017: 0.50 cents) 100% franked (2017: 100% franked) at the Australian tax rate of 27.5% (2017 27.5%)	-	1,202,104

**NOTE 8: RELATED PARTIES**

The condensed consolidated half-year financial statements include the financial statements of K2 Asset Management Holdings Ltd and its 100% (2017: 100%) owned subsidiaries K2 Asset Management Ltd, KII Pty Ltd and Trusuper Pty Ltd. KII Pty Ltd was registered on 12 August 2015 and Trusuper Pty Ltd was registered on 19 August 2016. As of the date of this report, these entities have had no operations.

K2 Asset Management Ltd provides investment management services to related party unit trusts, the K2 Australian Absolute Return Fund, K2 Select International Absolute Return Fund, K2 Asian Absolute Return Fund, K2 Global High Alpha Fund, K2 Global Equities Fund and K2 Australian Small Cap Fund (Funds). K2 Asset Management Ltd is entitled to receive payments from the Funds where it provides investment management services, including management fees, administration or responsible entity fees and in some instances a performance fee based upon the relevant fund's investment return over and above a specified benchmark. Total related party revenue of \$2,540,358 (2017: \$10,740,077) has been recognised in the Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2018.

As at 31 December 2018, K2 Asset Management has a current receivable of \$431,359 (2017: \$8,699,354) for investment management services provided to the Funds.

Dividends declared or paid by K2 Asset Management Ltd to K2 Asset Management Holdings Ltd for the half-year ended 31 December 2018 were nil (2017: \$3,756,575).

As at 31 December 2018, K2 Asset Management Ltd has a current liability of \$107,856 (2017: \$3,170,474) payable to the parent entity for dividends declared but not paid and operational expenditure paid by the parent entity on behalf of its subsidiary and a current liability of \$764,089 (2017: \$1,818,582) payable to the parent entity for tax related balances.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

### NOTE 8: RELATED PARTIES (CONT'D)

As at 31 December 2018, the Consolidated Entity has a current receivable of nil (2017: \$100,946) and a non-current receivable of \$578,605 (2017: \$626,831) 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 an employee ceasing to be employed by the Consolidated Entity. The loans are interest free and are unsecured.

Fund operating expenses of \$147,690 (2017: nil) were paid on behalf of the Funds to cover ASX fees, custodian fees, administration fees, unit registry fees and other fees and expenses relating to the administration of the Funds and K2's role as responsible entity.

### NOTE 9: CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2018.

### NOTE 10: ECONOMIC ENTITY DETAILS

The registered office of the company is:  
K2 Asset Management Holdings Ltd  
Level 32, 101 Collins Street  
Melbourne VIC 3000

Phone: 03 9691 6111

## DIRECTORS' DECLARATION

The directors declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 6 to 13, are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (b) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2018 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that K2 Asset Management Holdings Ltd will be able to pay its debts as and when they become due and payable.

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



**Campbell Neal**  
**Director**



**Hollie Wight**  
**Director**

Melbourne  
13 February 2019

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

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

We have reviewed the accompanying half-year financial report of K2 Asset Management Holdings Ltd “the Company” and controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration of the consolidated entity comprising the Company and the entities it controlled at the period’s end or from time to time during the half year.

*Directors’ Responsibility for the Half-Year Financial Report*

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

*Auditor’s Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entities financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of K2 Asset Management Holdings Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Independence*

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

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

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

*Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



K L BYRNE  
Partner



PITCHER PARTNERS  
Melbourne

13 February 2019