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

FINANCIAL INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016
PROVIDED TO THE ASX UNDER LISTING RULE 4.3A

Appendix 4E Preliminary Final Report

Name of entity

K2 Asset Management Holdings Ltd

ABN or equivalent company reference:

59 124 636 782

1. Reporting period (item 1)

Report for the financial year ended 30 June 2016

Previous corresponding period is the financial year ended 30 June 2015

2. Results for announcement to the market (item 2)

| | | | | |
|---|------|--------|----|------------|
| Revenues from ordinary activities (item 2.1) | down | 69.12% | to | 14,092,005 |
| Profit (loss) from ordinary activities after tax attributable to members (item 2.2) | down | 79.76% | to | 3,821,442 |
| Net profit (loss) for the period attributable to members (item 2.3) | down | 79.76% | to | 3,821,442 |

| Dividends (item 2.4) | Amount per security | Franked amount per security |
|---|---------------------|-----------------------------|
| Interim dividend – February 2016 | 1.00¢ | 1.00¢ |
| Final dividend – August 2016 | 0.50¢ | 0.50¢ |
| Record date for determining entitlements to the dividend (item 2.5) | 16 August 2016 | |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood (item 2.6):

The performance of the K2 funds and funds under management as at 30 June 2016 are detailed in the table below. Please refer to the Chairman's Report included in the attached financial report for further information on the performance of K2 Asset Management Holdings Ltd.

| K2 Funds | Financial year fund performance* | Since inception fund performance* | Since inception index performance # | FUM \$million |
|--|----------------------------------|-----------------------------------|-------------------------------------|------------------|
| K2 Australian Absolute Return Fund | -3.2% | 524.5% | 265.9% | 373.5 AUD |
| K2 Select International Absolute Return Fund | -10.9% | 204.9% | 88.0% | 148.9 AUD |
| K2 Asian Absolute Return Fund | -17.8% | 389.5% | 142.1% | 55.0 AUD |
| K2 Global High Alpha Fund | -6.4% | 224.8% | 92.3% | 53.4 AUD |
| K2 Global Equities Fund (KII) | -11.2% | -11.2% | -6.5% | 36.7 AUD |
| K2 Australian Small Cap Fund (KSM) | +9.6% | 42.4% | 16.2% | 22.0 AUD |
| Total | | | | 689.7 AUD |

The above information is unaudited. *Year to date figures are based on a financial year ended 30 June 2016 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 Asian Absolute Return Fund is compared to the MSCI Asia Pacific ex Japan 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. FUM figures are pre distributions payable for 30 June 2016. The K2 Global Equities Fund commenced operations on 20 July 2015.

3. **Statement of Comprehensive Income** (item 3)

Refer to the attached statement.

4. **Statement of Financial Position** (item 4)

Refer to the attached statement.

5. **Statement of Cash Flows** (item 5)

Refer to the attached statement.

6. **Dividends** (item 7)

| | Date of payment | Total amount of dividend per security | Franked amount per security | Foreign Sourced Income |
|--|------------------|---------------------------------------|-----------------------------|------------------------|
| Final dividend – year ended 30 June 2016 | 23 August 2016 | 0.50¢ | 0.50¢ | 0.00¢ |
| Interim dividend – year ended 30 June 2016 | 24 February 2016 | 1.00¢ | 1.00¢ | 0.00¢ |
| Final dividend – year ended 30 June 2015 | 26 August 2015 | 4.50¢ | 4.50¢ | 0.00¢ |
| Interim dividend – year ended 30 June 2015 | 25 February 2015 | 4.00¢ | 4.00¢ | 0.00¢ |
| Interim dividend – year ended 30 June 2015 | 27 August 2014 | 2.00¢ | 2.00¢ | 0.00¢ |

7. **Details of dividend or distribution reinvestment plans in operation are described below:** (item 8)

| | |
|--|----|
| NA | |
| The last date(s) for receipt of election notices for participation in the dividend or distribution reinvestment plan | NA |

8. **Statement of retained earnings** (item 6)

| | Consolidated Entity | |
|--|---------------------|--------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Balance at the beginning of year | 15,383,036 | 10,516,437 |
| Net profit/(loss) attributable to members of the parent entity | 3,821,442 | 18,878,891 |
| Total available for appropriation | 19,204,478 | 29,395,328 |
| Dividends paid | (12,845,826) | (14,012,292) |
| Balance at end of year | 6,358,652 | 15,383,036 |

9. **Net tangible assets per security** (item 9)

| | Current period | Previous corresponding period |
|--|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | \$0.03 | \$0.07 |

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10. Details of entities over which control has been gained or lost during the period: (item 10)

Control gained over entities

| | |
|--|--|
| Name of entities (item 10.1) | KII Pty Ltd |
| Date(s) of gain of control (item 10.2) | 12 August 2015 |
| Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities since the date(s) in the current period on which control was acquired (item 10.3) | \$0.00 As of the date of this report KII Pty Ltd has had no operations. |
| Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 4.3) | \$0.00 As of the date of this report KII Pty Ltd has had no operations. |

Loss of control of entities

| | |
|--|----|
| Name of entities (item 10.1) | NA |
| Date(s) of loss of control (item 10.2) | |
| Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities to the date(s) in the current period when control was lost (item 10.3). | \$ |
| Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 4.3) | \$ |

11. Details of associates and joint venture entities (item 11)

| Name of associate or joint venture entity (item 11.1) | % Securities held (item 11.2) |
|--|----------------------------------|
| NA | |
| | |
| | |

Aggregate share of profits (losses) of associates and joint venture entities (item 11.3)

| Group's share of associates' and joint venture entities': | 2016 \$ | 2015 \$ |
|--|------------|------------|
| Profit (loss) from ordinary activities before tax | NA | NA |
| Income tax on ordinary activities | | |
| Net profit (loss) from ordinary activities after tax | | |
| Adjustments | | |
| Share of net profit (loss) of associates and joint venture entities | | |

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12. Any other significant information relating to the entity's financial performance and financial position.

NA

13. The financial information provided in the Appendix 4E is based on the annual financial report (attached), which has been prepared in accordance with Australian accounting standards (*item 13*)

14. Commentary on the results for the period (*item 14*)

Refer to the attached financial report and Chairman's report for additional information.

15. Audit of the financial report (*item 15*)

The financial report has been audited.

16. The audit has been completed.

The financial report is not subject to audit dispute or qualification.

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

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

K2 Asset Management Holdings Ltd and Controlled Entities
FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

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CHAIRMAN'S REPORT

The 2016 financial year presented several challenges on a domestic and international front. The most dramatic and recent of these challenges was the 23 June Brexit referendum. While global markets had contemplated the exit possibility it is fair to say they believed the actual Brexit outcome was remote. The unexpected outcome sparked a global equity sell off with news headlines claiming trillions of dollars being wiped off equity markets worldwide. Not surprisingly there were no such dramatic headlines when markets recouped nearly all of the losses, with investor confidence the only true fatality.

While there has been a significant amount of noise in markets over the last 12 months adding to volatility, it is important for long term investors to ensure they adhere to their long term investment strategies. We strongly believe that the current volatility, and recent negativity, has created a number of opportunities for astute investors to add to their portfolios. By scouring markets globally we believe there are many world class equities now trading at less than fair value.

During all periods of negative performance we look internally and closely analyse where we went wrong and where we can improve. Fund managers will never make the right decisions all the time but it is important not to make the wrong decision on multiple occasions and to have the systems in place to limit the impact a period of negative performance can have. Significant market events during the year included the following:

- In December 2015, the US Federal Reserve lifted the official cash rate by 0.25%. This was the first rate hike since June 2006. Although the move was largely expected, K2 didn't expect the People's Bank of China's subsequent move to devalue the yuan against the USD, which created significant market dislocations. During January 2016 the China A-share market fell 22.7%, the China H-share market dropped 14.7%, oil prices declined 9.2% and the US S&P 500 retraced 5.1%.
- In June 2016, the United Kingdom (UK) voted to leave the European Union (EU). It was our base case that the UK would vote to remain within the EU. The K2 funds had taken advantage of the weakness in the UK market leading up to the Brexit vote and added around 350 basis points of exposure. In addition, we entered the UK Referendum with 25% exposure to global financials. One of our UK bank holdings, Lloyds Banking Group PLC, fell 25% in the 5 days following the vote. In addition, the Brexit outcome also had collateral damage on our non UK positions. In local currency terms, global financials were down 6.1% in June. The sharp rise in the AUD vs the GBP of 13% in June also had an impact on our performance.

Our business and investment processes which are led by myself and the board continue to evolve in order to provide positive returns for investors in these difficult markets. We remain confident in our team of highly skilled employees who remain the foundation of our firm and we will continue to invest in and develop our skill base. During the year we added to our team with the inclusion of two new fund managers focused primarily on international equities.

K2 had a busy year launching new products that will assist investors in both Australia and overseas to easily transact and access our managed funds. The K2 Global Equities Fund (ASX: KII) and the K2 Australian Small Cap Fund (ASX: KSM) are both trading on the Australian Securities Exchange (ASX) as open ended managed funds providing live pricing and the ability to buy and sell units on market with the same ease as any ASX listed security.

These listed funds eliminate the barriers to entry that have been problematic to K2 over the years. By eliminating the lengthy application and redemption process and allowing investors to utilise their existing brokerage accounts we hope investors and advisors alike will embrace this new distribution channel.

This new distribution method has seen K2 reinvent many internal processes and forge strong partnerships with external parties. The comforting approach of "this is how we've always done things" no longer exists, and likely never will again. Working together with regulators, brokers and service providers we have built robust solutions that unitholders can both trust and utilise for their own benefit.

At K2 we believe that if we look after our investors, increase performance and Funds Under Management (FUM) we will eventually reward shareholders through share price appreciation and dividend growth. With cash rates so low and with some rates negative globally, the cash option is increasingly not an option. We encourage all investors to trust in our processes and ride out the ebbs and flows of equity markets.

As a result of global market volatility and the specific events highlighted above, only one of our funds produced positive performance during the 2016 financial year and subsequently FUM and inflows declined.

CHAIRMAN'S REPORT (CONT'D)

In line with the below mentioned performance results, K2 received performance fees totalling \$1.1 million for the year. Management fees totalled \$12.1 million bringing total income to \$14.1 million and profit after tax to \$3.8 million. All expenses continue to be closely monitored and remain relatively stable. K2's balance sheet remains strong with excess cash reserves and no borrowings.

Shareholders received a 1.0 cent fully franked dividend in February and a fully franked dividend has been declared on 10 August 2016 of 0.5 cents per share.

The performance of the K2 funds and FUM as at 30 June 2016 are detailed in the table below:

| K2 Funds | Financial year fund performance* | Since inception fund performance* | Since inception index performance # | FUM \$million |
|--|----------------------------------|-----------------------------------|-------------------------------------|------------------|
| K2 Australian Absolute Return Fund | -3.2% | 524.5% | 265.9% | 373.5 AUD |
| K2 Select International Absolute Return Fund | -10.9% | 204.9% | 88.0% | 148.9 AUD |
| K2 Asian Absolute Return Fund | -17.8% | 389.5% | 142.1% | 55.0 AUD |
| K2 Global High Alpha Fund | -6.4% | 224.8% | 92.3% | 53.4 AUD |
| K2 Global Equities Fund (KII) | -11.2% | -11.2% | -6.5% | 36.7 AUD |
| K2 Australian Small Cap Fund (KSM) | +9.6% | 42.4% | 16.2% | 22.0 AUD |
| Total | | | | 689.7 AUD |

The above information is unaudited. *Year to date figures are based on a financial year ended 30 June 2016 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 Asian Absolute Return Fund is compared to the MSCI Asia Pacific ex Japan 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. FUM figures are pre distributions payable for 30 June 2016. The K2 Global Equities Fund commenced operations on 20 July 2015.



Campbell Neal
Chairman

Melbourne
10 August 2016

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) and KII Pty Ltd, for the financial year ended 30 June 2016 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:

| | |
|---------------|---|
| 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) |

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 and KII 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 has had no operations.

RESULTS

The consolidated profit before tax attributable to the members of K2 Asset Management Holdings Ltd was \$5,655,183 (2015: \$26,963,480). The consolidated profit after tax attributable to members was \$3,821,442 (2015: \$18,878,891). Please refer to the Consolidated Statement of Comprehensive Income on page 21 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 \$12,169,083 (2015: \$12,840,989) and \$1,128,684 (2015: \$31,861,524) respectively. Total revenue amounted to \$14,092,005 (2015: \$45,638,460). Please refer to the Consolidated Statement of Comprehensive Income on page 21 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 2016 financial year | Cents per share | Total amount | Date of payment |
|--|-----------------|--------------|-----------------|
| Interim dividend (100% franked) – February 2016 | 1.0 | 2,335,877 | February 2016 |
| Final dividend (100% franked) – August 2015 | 4.5 | 10,509,949 | August 2015 |

After balance sheet date the following dividend was proposed by the directors. The financial effect of this dividend has not been brought to account in the consolidated financial statement for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

| Declared after 30 June 2016 | Cents per share | Total amount | Date of payment |
|---|-----------------|--------------|-----------------|
| Final dividend (100% franked) – August 2016 | 0.5 | 1,167,939 | August 2016 |

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: | 2016 | 2015 |
|---|------|------|
| | \$ | \$ |

| | | |
|---------------------------|--------|--------|
| Tax consulting services | 13,966 | 22,290 |
| Other consulting services | 1,460 | - |

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

Mr Neal 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 31 years' experience in both stockbroking and funds management.

DIRECTORS' REPORT (CONT'D)

Mark Sydney Newman BEcon

Mr Newman has been Chief Investment Officer and Executive Director of K2 Asset Management Holdings and K2 Asset Management Ltd since their formation. Mark has 31 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 Asian Pacific region. Mark co-founded K2 Asset Management Ltd in 1999.

Hollie Anne Wight BBus(Acc)(Hons), CPA

Ms Wight 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. Hollie was appointed Company Secretary, effective 5 September 2014.

Robert Clive Hand BEcon, MBA

Mr Hand 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. As of 4 October 2013, Rob resigned as an Executive Director and commenced a Non-Executive role with the board of K2.

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:

| K2 Asset Management Holdings Ltd | Eligible to attend | Attended |
|---|---------------------------|-----------------|
| Campbell Neal | 10 | 10 |
| Mark Newman | 10 | 9 |
| Hollie Wight | 10 | 10 |
| Robert Hand | 10 | 7 |

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 2016 financial year were nil (2015: \$7,932,010).

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. A limited number of employees are allowed to use the after tax proceeds of deferred bonuses to purchase equity at market value in K2 Asset Management Holdings Ltd.

During the year the timing of payments of long-term incentives owing to executive directors was changed. Existing long-term incentives that had previously been expensed but were not due were paid. The balance remaining following the payment of these long-term incentives will be paid in three instalments between December 2016 and June 2018.

Long-term incentives paid or due for the 2016 financial year is \$3,442,787 (2015: \$1,831,153). This represented 97% (2015: 95%) of the total deferred bonus payable with the remainder being forfeited due to the above mentioned criteria not being met. There is currently a maximum of \$1,288,683 (2015: \$5,786,427) outstanding in deferred bonuses payable between December 2016 and June 2018.

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 2016 is as follows (the below information is summarised in Note 21):

| | Campbell Neal | Mark Newman |
|--|--|--|
| Position held: | Chairman and Managing Director | Chief Investment Officer |
| Appointed: | September 1999 | September 1999 |
| Base salary: | \$1,085,486 (2015: \$1,088,347) | \$395,912 (2015: \$497,293) |
| Superannuation: | \$19,308 (2015: \$18,783) | \$29,791 (2015: \$35,000) |
| Short-term incentives earned: * | nil (2015: \$3,388,181) | nil (2015: \$1,711,016) |
| Long-term incentives paid or due: * | \$1,795,298 (2015: \$694,736) | \$739,366 (2015: \$195,250) |
| Long-term incentives payable: | The maximum performance-based deferred cash bonus payable to Mr Neal over three additional instalments between December 2016 and June 2018 is \$382,520 (2015: \$2,268,875). | The maximum performance-based deferred cash bonus payable to Mr Newman over three additional instalments between December 2016 and June 2018 is \$180,222 (2015: \$957,088). |
| Incentive based salary as a % of total salary: | 62% (2015: 79%) | 63% (2015: 78%) |
| | Hollie Wight | Robert Hand |
| Position held: | Chief Financial Officer and Company Secretary | Non-Executive Director |
| Appointed: | April 2005 | October 2001 |
| Base salary: | \$245,812 (2015: \$216,211) | \$70,994 (2015: \$70,973) |
| Superannuation: | \$19,231 (2015: \$17,700) | \$6,744 (2015: \$6,559) |
| Short-term incentives earned: * | nil (2015: nil) | nil (2015: nil) |
| Long-term incentives paid or due: * | \$114,197 (2015: \$88,995) | nil (2015: nil) |
| Long-term incentives payable: | The maximum performance-based deferred cash bonus payable to Ms Wight over three additional instalments between December 2016 and June 2018 is \$8,800 (2015: \$128,789). | As a non-executive director, Mr Hand is ineligible to receive incentive based payments. |
| Incentive based salary as a % of total salary: | 30% (2015: 28%) | 0% (2015: 0%) |

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

AUDITED REMUNERATION REPORT (CONT'D)

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:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|------------|------------|------------|-------------|
| Profit/(loss) before tax | 5,655,183 | 26,963,480 | 23,597,248 | 18,860,340 | 6,071,947 |
| Profit/(loss) after tax | 3,821,442 | 18,878,891 | 16,437,342 | 13,201,645 | (1,683,981) |
| Total performance fees | 1,128,684 | 31,861,524 | 27,668,403 | 24,307,517 | 124,550 |
| Basic earnings per share | 1.64 | 8.08 | 7.04 | 5.66 | (0.72) |
| Cost to income ratio | 59.87% | 40.92% | 43.48% | 48.15% | 57.27% |
| Total KMP short-term incentives as a percentage of total income for the year | 0.00% | 11.17% | 10.73% | 10.01% | 0.00% |

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.

CONSEQUENCE OF COMPANY'S PERFORMANCE ON SHAREHOLDER WEALTH

The following table summarises company performance and key performance indicators:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|------------|------------|------------|------------|------------|
| Revenue (\$) | 14,092,005 | 45,638,460 | 41,749,868 | 36,375,249 | 14,208,852 |
| Change in revenue (%) | (69.12%) | 9.31% | 14.78% | 156.00% | (65.76%) |
| Profit before tax (\$) | 5,655,183 | 26,963,480 | 23,597,248 | 18,860,340 | 6,071,947 |
| Change in profit before tax (%) | (79.03%) | 14.27% | 25.12% | 210.61% | (72.84%) |
| Change in share price (%) | (40.00%) | 2.94% | 65.85% | 46.43% | (61.38%) |
| Dividends declared (\$) | 3,503,816 | 24,522,241 | 14,010,348 | 14,007,211 | - |
| Total remuneration of KMP (\$) | 4,522,139 | 8,029,044 | 7,570,749 | 6,424,892 | 1,995,699 |
| Total performance based remuneration of KMP (\$) | 2,648,861 | 6,078,178 | 5,364,836 | 4,641,673 | 322,778 |

DIRECTORS' INTERESTS IN SHARES

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

| | Balance 1 July 2015 | Net change Other* | Balance 30 June 2016 |
|------------------|------------------------|----------------------|-------------------------|
| Directors | | | |
| Campbell Neal | 81,651,826 | - | 81,651,826 |
| Mark Newman | 51,558,699 | (160,512) | 51,398,187 |
| Hollie Wight | 5,238,566 | - | 5,238,566 |
| Robert Hand | 13,616,976 | - | 13,616,976 |
| | <u>152,066,067</u> | <u>(160,512)</u> | <u>151,905,555</u> |

* 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.

AUDITED REMUNERATION REPORT (CONT'D)

LOANS TO KEY MANAGEMENT PERSONNEL

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

Refer to Note 23 for details of transactions with related parties. There were no other transactions with related parties during the period other than those detailed in Note 23 of the financial statements.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2015 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
10 August 2016

K2 ASSET MANAGEMENT HOLDINGS LTD
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 2016, to the best of my knowledge and belief there have been:

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

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



K L BYRNE
Partner
10 August 2016



PITCHER PARTNERS
Melbourne

For personal use only

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of ordinary securities as at 1 August 2016 are as follows:

| | Number of shares | % |
|---|---------------------|---------------|
| CWN FT PTY LTD <CWN FAMILY A/C> | 77,723,973 | 33.274 |
| MR MARK NEWMAN <FD246 A/C> | 26,701,202 | 11.431 |
| MSN SUPERANNUATION NOMINEES PTY LTD <MSN SUPERANNUATION FUND A/C> | 15,580,476 | 6.670 |
| ABRO INVESTMENTS PTY LTD <ABRO FAMILY A/C> | 13,616,976 | 5.829 |
| JAWATTE NOMINEES PTY LTD <THE JAWATTE FAMILY A/C> | 8,890,762 | 3.806 |
| CITICORP NOMINEES PTY LIMITED | 8,876,817 | 3.800 |
| MS NEWMAN FAMILY FOUNDATION PTY LTD | 8,555,556 | 3.663 |
| MR PETER RONEC <RF A/C> | 7,503,796 | 3.212 |
| MR JOSHUA KITCHEN | 4,850,000 | 2.076 |
| DHC INVESTMENTS PTY LTD <CLEVEN FAMILY A/C> | 4,603,470 | 1.971 |
| CRUSADE NOMINEES PTY LTD <POPPENBEEK FAMILY A/C> | 3,940,000 | 1.687 |
| CWN SUPERANNUATION NOMINEES PTY LTD <CWN PERSONAL SUPER FUND A/C> | 3,927,853 | 1.682 |
| MR PETER RONEC & MS SUZANNE RUMBLE <RONEC SUPER FUND A/C> | 2,843,250 | 1.217 |
| TG INVESTMENT CORP PTY LTD <TG A/C> | 2,549,804 | 1.092 |
| LUCKNOW SECURITIES PTY LTD <HALL FAMILY A/C> | 2,447,283 | 1.048 |
| MS SIMONE MARCELLE NEAL | 1,920,734 | 0.822 |
| DJ ENTERPRISES PTY LTD <DJ ENTERPRISES S/F A/C> | 859,047 | 0.368 |
| MR DAVID CLEVEN & MS HOLLIE WIGHT <DHC SUPER FUND A/C> | 635,096 | 0.272 |
| EDINGTON PTY LIMITED <HERRING SUPER FUND A/C> | 583,236 | 0.250 |
| MR NICHOLAS LEITL <THE PYRMONT TRUST A/C> | 561,831 | 0.241 |
| Total held by top 20 | 197,171,162 | 84.410 |
| Total ordinary securities on issue | 233,587,714 | |

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 154,328,830 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 3,927,853 shares, bringing his total substantial holding to 158,256,683 shares. Mark Newman has a relevant interest in an additional 24,696,985 shares, bringing his total substantial holding to 179,025,815 shares. Hollie Wight has a relevant interest in an additional 635,096 shares, bringing her substantial holding to 154,963,926 shares. David Poppenbeek has a relevant interest in an additional 500,000 shares, bringing his total substantial holding to 154,828,830 shares. Peter Ronec has a relevant interest in an additional 3,036,333 shares, bringing his total substantial holding to 157,365,163. Andrew Hall has a relevant interest in an additional 30,010 shares, bringing his total substantial holding to 154,358,840 shares. Timothy Holt has a relevant interest in an additional 20,000 shares, bringing his total substantial holding to 154,348,830. Andrew Pugsley has a relevant interest in an additional 20,000 shares, bringing his total substantial holding to 154,348,830 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 10.

SHAREHOLDER INFORMATION (CONT'D)

DISTRIBUTION OF SECURITIES

Security Class: Fully Paid Ordinary Shares

Holdings Ranges as at 1 August 2016

| | Holders |
|-----------------------|----------------|
| 1-1,000 | 99 |
| 1,001-5,000 | 332 |
| 5,001-10,000 | 270 |
| 10,001-100,000 | 591 |
| 100,001-9,999,999,999 | 85 |

Total number of holders **1,377**

Number of holders of less than a marketable parcel **118**

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.

2016 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 15 November 2016. 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.

CORPORATE GOVERNANCE STATEMENT

The directors and management of the consolidated entity are committed to maintaining best practice in corporate governance. When adopting corporate governance policies the board has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) released in 2014 ("ASX Recommendations" or "Principles").

Detailed corporate governance policies, charters and codes, referred to in this statement, can be found on the Company's website (www.k2am.com) under Shareholders, Corporate Governance.

This corporate governance statement outlines the Company's compliance with the ASX Recommendations.

1. BOARD OF DIRECTORS

The structure of K2 Asset Management Holdings Ltd's board is as follows:

| Director | Role | Date of Appointment |
|-----------------------|------------------------|---------------------|
| Campbell Neal (Chair) | Executive Director | 27 March 2007 |
| Mark Newman | Executive Director | 27 March 2007 |
| Hollie Wight | Executive Director | 27 March 2007 |
| Robert Hand | Non-executive Director | 27 March 2007 |

MEETINGS OF THE BOARD

The board meets formally at least six times a year and on other occasions as required. On the invitation of the board or request of senior management, members of senior management attend and make presentations to the board.

ROLES AND RESPONSIBILITIES OF THE BOARD

In accordance with ASX Recommendation 1.1, the Company discloses that the board has the primary responsibility for the oversight, management and performance of the Company which includes compliance with the Company's corporate governance objectives.

The board charter provides, among other things, that the board is responsible for:

- oversight of strategic 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 shareholder 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.

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 checks (such as to the person's character, experience, education, criminal record and, for a director, bankruptcy history) are undertaken before appointing a person, or putting forward to shareholders a candidate for election, as a director.

The constitution of K2 Asset Management Holdings Ltd requires one third of the directors, other than the managing director, to retire from office at each annual general meeting. Directors who have been appointed by the board are required to retire from office at the next annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting. Directors cannot hold office for a period in excess of three years (or later than the third annual general meeting following their appointment) without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

In accordance with ASX Recommendation 1.2(b), shareholders are provided with all material information relevant to a decision on whether or not to re-elect a director ahead of and at an annual general meeting. This information includes biographical details, details of any other material directorships (if applicable), the term of office currently served by the director and a statement by the board as to whether it supports the re-election of the director.

In accordance with the board charter and consistent with ASX Recommendation 1.3, each director is engaged under a written agreement.

COMPANY SECRETARY

The role of the company secretary is consistent with the guidelines on the secretary's role provided under ASX Recommendation 1.4. The company secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

PERFORMANCE ASSESSMENT

As set out in the board charter, and in accordance with ASX Recommendation 1.6 and 1.7, the board completes a performance evaluation on an annual basis. This includes a review of the board, individual directors (who also represent the Company's senior executives) and committees (if any). The most recent performance evaluation of the board and senior management was conducted in accordance with this process on 17 June 2016.

At the review:

- performance objectives and development plans are set (having regard to both the business goals set by the board and individual performance criteria) for the forthcoming financial year;
- individual performance is assessed against the prior year's performance objectives; and
- short term remuneration and long term participation in the Company's incentive plan is determined by reference to individuals' performance.

The review of the managing director is carried out, and approved by, the board.

Performance evaluations of all employees (including directors and senior executives) are undertaken on an annual basis on or about 30 June.

BOARD STRUCTURE AND DIRECTOR INDEPENDENCE

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 date of this report are described in the Directors' Report on page 6 of this report. In accordance with ASX Recommendation 2.2, the board considers the mix of skills and diversity of board members when assessing the composition of the board and these are set out in the Company's diversity policy.

The board has reviewed the position and associations of all four directors in office and has determined that none of the directors are independent of the Company. In making this determination the board has had regard to the independence criteria in ASX Recommendation 2.3 and other information and circumstances that the board considers relevant. The board will assess the independence of any new directors upon appointment and will regularly review each director's independence, as appropriate.

The board has acknowledged and considered ASX Recommendation 2.4 which states that the majority of the board should be independent directors and ASX Recommendation 2.5 which states that the roles of chair and managing director should not be performed by the same person. The board recognises that following these ASX Recommendations may add value to a company with a large board. However, given the size and cohesion of the board, and the fact that all executive directors also make up the Company's senior management, the requirement of having an independent chair to liaise between board and management is unnecessary. Accordingly, the board's structure is not consistent with these ASX Recommendations. The board considers that it has the relevant experience in the industry in which it operates and is appropriately structured to perform its duties in a manner that is in the best interests of the Company and its shareholders.

TRAINING

In accordance with ASX Recommendation 2.6, all new employees, including directors and senior executives, receive induction training covering (as appropriate):

- company structure and operations;
- risk management, corporate governance and various employee 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 Asset Management Ltd as holder of an Australian financial services licence.

All directors have access to, and do access, continuing education to enhance their skills and knowledge where deemed appropriate.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

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

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 as a whole.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2. BOARD COMMITTEES

The board considers that it is not necessary to establish separate board committees at this time. All matters that may be capable of delegation to committees are dealt with by the full board. External advice is sought on particular matters where the board considers it necessary.

ASX Recommendation 2.1(a) states that the board should establish a nomination committee whereas the Company's board charter states that the board is responsible for the nomination of directors. The board currently has the power and the obligation to raise and consider issues which would otherwise be considered by the nomination committee including the nomination and appointment of directors, board evaluations and any other directorships held by board members.

ASX Recommendation 4.1(a) states that the board should establish an audit committee and describes the people who should form the committee. As stated in the Company's statement of corporate governance principles, the board has not currently established such a committee and therefore ASX Recommendation 4.1(a) has not been adopted.

The functions of an audit committee that are carried out by the board include reviewing and making recommendations in relation to:

- the adequacy of the entity's corporate reporting processes;
- whether the entity's financial statements reflect the understanding of the committee members of, and otherwise provide a true and fair view of, the financial position and performance of the entity;
- the appropriateness of the accounting judgements or choices exercised by management in preparing the entity's financial statements;
- the appointment or removal of the external auditor;
- the rotation of the audit engagement partner;
- the scope and adequacy of the external audit;
- the independence and performance of the external auditor;
- any proposal for the external auditor to provide non-audit services and whether it might compromise the independence of the external auditor.

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

ASX Recommendation 7.1(a) provides that the board should establish a committee or committees to oversee risk. The board charter provides that the board has responsibility for approving and monitoring compliance with the Company's risk management strategy and internal controls. For more information on the Company's risk management processes refer to the Risk Management section on page 19.

ASX Recommendation 8.1(a) provides that the board should establish a remuneration committee and distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. As stated previously, the Company does not presently have a remuneration committee due to its operations and size, and accordingly does not comply with ASX Recommendation 8.1(a).

In accordance with ASX Recommendation 8.2, the Company discloses that all remuneration is assessed as part of the performance reviews undertaken on an annual basis in line with the Company's corporate governance summary. The board charter explains that the board is responsible for the remuneration of directors and senior management, and the constitution provides further details regarding remuneration. The Company engages professional independent advice in this area as required to review its remuneration arrangements and to assist in developing a remuneration policy and incentive scheme. The constitution of the Company distinguishes the appropriate remuneration components for executive and non-executive directors. Please refer to the Remuneration Report on page 8 for further information.

Relevantly for the Company, ASX Recommendations 2.1, 4.1, 7.1 and 8.1 all include similar statements that the boards of some smaller listed entities may decide that they are able to deal efficiently and effectively with the relevant issues without establishing separate committees. Given the size of the Company, the board believes that it is able to deal effectively with the relevant issues and that the same efficiencies that are currently in place may not be derived from implementing a formal committee structure.

3. CODE OF CONDUCT

As set out in ASX Recommendation 3.1, the Company has adopted a code of conduct for all employees and directors of the Company and a copy of the code is available on the Company's website. The code of conduct aims to establish Company values and maintain the highest level of ethical standards, corporate behaviour and accountability.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

In particular, the code addresses:

- compliance with laws including taxation laws;
- fair dealing;
- confidentiality and protection of Company assets;
- conflicts of interest;
- obligations to shareholders 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 these matters are supported by their own specific policies and procedures.

SHARE TRADING

Under the Company's share trading policy all employees and directors of the Company are prohibited from trading in the Company's shares if they are in possession of inside information. 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 these blackout periods, if employees wish to trade they must obtain written approval from a director and present a signed declaration that they are not in possession of material non-public information.

Consistent with ASX Recommendation 8.3, the policy also prohibits employees from entering into transactions in products which operate to limit the economic risk of holding unvested entitlements in the Company's shares.

4. FINANCIAL REPORTING AND AUDIT GOVERNANCE

The Company's financial report preparation and approval process involves the managing director and the chief financial officer providing a written statement to the board that, to the best of their knowledge and belief, the Company's financial records have been properly maintained and the Company's financial report presents a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with applicable accounting standards.

In accordance with ASX Recommendation 4.2, the managing director and the chief financial officer provide the board with an annual written declaration that, in their opinion, the Company's financial statements 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 and compliance operating effectively in all material respects.

APPOINTMENT OF AUDITORS

The Company's current external auditors are Pitcher Partners.

INDEPENDENCE DECLARATION

The *Corporations Act 2001* requires external auditors to make an annual independence declaration to the board, declaring that the auditors have maintained independence in accordance with section 307C of the *Corporations Act 2001*.

NON-AUDIT SERVICES BY EXTERNAL AUDITORS

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

ATTENDANCE AT ANNUAL GENERAL MEETINGS

In accordance with ASX Recommendation 4.3, the Company's external auditors attend and are available to answer questions at the Company's annual general meetings. Shareholders may submit questions for the external auditors to the company secretary no later than five business days before an annual general meeting.

5. CONTINUOUS DISCLOSURE

The board has adopted a continuous disclosure and shareholder reporting policy to ensure compliance with the ASX Listing Rules' continuous disclosure requirements.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

This 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 shareholder communications.

The policy provides the standards, protocols and requirements which are expected of all directors, senior management and employees of the Company. However, in particular it states that the directors (and more specifically the managing director, the chief financial officer and the company secretary) are accountable for approving and monitoring compliance with the policy and with the ASX Listing Rules relating to continuous disclosure.

To ensure shareholders have equal and timely access to material information concerning the Company, a monthly announcement is lodged with ASX detailing current fund performance and funds under management for the funds for which K2 Asset Management Ltd acts as investment manager. As recommended in ASX Principle 5, each announcement goes through a review and authorisation process prior to lodgement.

6. SHAREHOLDER COMMUNICATION

The board has approved, as part of the continuous disclosure and shareholder reporting policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company may communicate with its shareholders via a number of means. These communications can include annual and half-yearly reports, media releases, public announcements and annual general meetings. Consistent with ASX Recommendation 6.4, shareholders have the option to receive communications from, and send communications to, the Company and its share registry electronically.

As noted in the Company's continuous disclosure and shareholder reporting policy, and in accordance with ASX Recommendation 6.3, the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunity for informed shareholder participation.

7. RISK MANAGEMENT

The Company is committed to the identification, monitoring and management of risks associated with its business activities. As part of its management and reporting systems, a risk management policy has been established which is founded on the detailed risk management procedures required under the Australian financial services licence held by K2 Asset Management Ltd.

The policy establishes a management risk review group to identify and monitor the risks faced by the Company and recommend mitigation strategies. The management risk review group reports to the board at regular intervals on issues such as compliance, insurance, occupational health and safety, protection of client funds and financial issues.

While the Company does not have a formal internal audit function, management and employees are ultimately responsible to the board for the Company's system of internal control and risk management. Consistent with ASX Recommendation 7.3, 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. In accordance with ASX Recommendation 7.2, the board discloses that it most recently reviewed the Company's risk management framework on 17 June 2016.

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.

8. DIVERSITY

Since July 2011 the Company has posted its diversity policy on its website in summary form, in accordance with ASX Recommendation 1.5.

As at 1 July 2016 the Company had 25 employees, 5 of whom are female. The Company's recruitment and opportunities for promotion have always been based on merit. One of the Company's departments is headed by a woman and one of the Company's four directors is female. The Company has not hesitated to elevate women (and persons of varying ages, ethnicity and cultural backgrounds) to senior positions where their skills and abilities merit the appointment.

The Company's diversity policy requires the board to establish measurable objectives in relation to gender diversity and assess them annually. These objectives and the steps taken towards achieving them are set out below:

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Objective 1: Valuing diversity in the selection and appointment of directors and employees

The Company's diversity strategy includes:

- aiming to recruit 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 diversity.

In terms of progress against this objective, the Company has 25 employees and a workforce which has historically been, and continues to be, stable. There is therefore insufficient data available to report against significant metrics or observe a pattern in the gender of persons employed. When positions do become available the Company considers and interviews applicants from both genders and with various cultural backgrounds. Both men and women are involved in employment interviews and the employment decision.

To encourage internal promotions and building skill sets for executive succession, all employees are encouraged to undertake training in areas including leadership and general skills development, with appropriate conferences and courses paid for by the Company and study leave provided for approved postgraduate courses.

Objective 2: Workplace culture – ongoing diversity

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

- 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 training for all staff.

The board is satisfied with the progress of this objective and considers that the above policies have been effectively utilised and contribute to staff retention and diversity.

Objective 3: Diversity in Board Membership

The mix of skills and diversity which the Company's directors seek to achieve in the composition 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, and some may be contributed by the company secretary or other advisors and committees.

As mentioned above, the board is currently one-quarter female. However, again given the small size and stability of the board, it is not possible to identify a pattern (diverse or otherwise) in board appointments at this stage.

MEASURING DIVERSITY IN A SMALL BUSINESS

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 as employee numbers 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 can be set by larger companies. The Company has complied with ASX Recommendation 1.5 as far as is reasonably practicable.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|-------------------|
| Revenue | 4 | 14,092,005 | 45,638,460 |
| Employee benefits expense | 5 | (6,342,460) | (16,517,123) |
| Depreciation and amortisation expenses | 5 | (44,882) | (43,172) |
| Marketing expenses | 5 | (810,901) | (802,578) |
| Occupancy expenses | 5 | (648,738) | (676,041) |
| Professional expenses | | (356,172) | (435,062) |
| Technology expenses | | (181,694) | (156,145) |
| Other expenses | | (51,975) | (44,859) |
| | | (8,436,822) | (18,674,980) |
| Profit before income tax | | 5,655,183 | 26,963,480 |
| Income tax expense | 6 | (1,833,741) | (8,084,589) |
| Total comprehensive income for the year | | 3,821,442 | 18,878,891 |
| Basic earnings per share (cents per share) | 20 | 1.64 | 8.08 |
| Diluted earnings per share (cents per share) | 20 | 1.64 | 8.08 |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|--------------------------------------|-------|-------------------|-------------------|
| Current Assets | | | |
| Cash and cash equivalents | 8 | 9,601,745 | 22,540,562 |
| Receivables | 9 | 1,229,943 | 24,066,431 |
| Current tax receivable | 6 | 102,785 | - |
| Other current assets | 10 | 175,626 | 175,308 |
| Total Current Assets | | 11,110,099 | 46,782,301 |
| Non-current Assets | | | |
| Plant and equipment | 11 | 89,927 | 70,772 |
| Intangible assets | 12 | 2,711 | 3,278 |
| Deferred tax assets | 6 | 674,469 | 1,526,660 |
| Other non-current assets | 13 | 27,000 | 27,000 |
| Total Non-current Assets | | 794,107 | 1,627,710 |
| Total Assets | | 11,904,206 | 48,410,011 |
| Current Liabilities | | | |
| Trade and other payables | 14 | 424,575 | 9,227,279 |
| Current tax payable | 6 | - | 6,783,746 |
| Provisions | 15 | 2,483,742 | 12,786,110 |
| Total Current Liabilities | | 2,908,317 | 28,797,135 |
| Non-current Liabilities | | | |
| Provisions | 15 | 375,313 | 1,937,236 |
| Other non-current liabilities | 14 | 178,249 | 231,091 |
| Total Non-current Liabilities | | 553,562 | 2,168,327 |
| Total Liabilities | | 3,461,879 | 30,965,462 |
| Net Assets | | 8,442,327 | 17,444,549 |
| Equity | | | |
| Share capital | 16 | 2,083,675 | 2,061,513 |
| Retained earnings | 17 | 6,358,652 | 15,383,036 |
| Total Equity | | 8,442,327 | 17,444,549 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2016

| 2016 | Contributed equity \$ | Retained earnings \$ | Total Equity \$ |
|---|--------------------------------------|-------------------------------------|----------------------------|
| Balance as at 1 July 2015 | 2,061,513 | 15,383,036 | 17,444,549 |
| Profit for the year | - | 3,821,442 | 3,821,442 |
| Total comprehensive income for the year | - | 3,821,442 | 3,821,442 |
| Transactions with owners in their capacity as owners | | | |
| Proceeds from share issue | 22,162 | - | 22,162 |
| Dividends paid | - | (12,845,826) | (12,845,826) |
| Total transactions with owners in their capacity as owners | 22,162 | (12,845,826) | (12,823,664) |
| Balance as at 30 June 2016 | 2,083,675 | 6,358,652 | 8,442,327 |
| 2015 | | | |
| | Contributed equity \$ | Retained earnings \$ | Total Equity \$ |
| Balance as at 1 July 2014 | 2,037,247 | 10,516,437 | 12,553,684 |
| Profit for the year | - | 18,878,891 | 18,878,891 |
| Total comprehensive income for the year | - | 18,878,891 | 18,878,891 |
| Transactions with owners in their capacity as owners | | | |
| Proceeds from share issue | 24,266 | - | 24,266 |
| Dividends paid | - | (14,012,292) | (14,012,292) |
| Total transactions with owners in their capacity as owners | 24,266 | (14,012,292) | (13,988,026) |
| Balance as at 30 June 2015 | 2,061,513 | 15,383,036 | 17,444,549 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|---------------------|---------------------|
| Cash flow from operating activities | | | |
| Receipts from customers | | 49,928,484 | 34,214,889 |
| Payments to suppliers and employees | | (42,351,820) | (10,568,984) |
| Interest received | | 239,734 | 364,600 |
| Income tax paid | | (7,868,081) | (3,910,102) |
| Net cash provided/(used) by operating activities | 18(b) | <u>(51,683)</u> | <u>20,100,403</u> |
| Cash flow from investing activities | | | |
| Payment for plant and equipment | | (63,470) | (41,065) |
| Payment for trademarks and licenses | | - | (840) |
| Net cash used in investing activities | | <u>(63,470)</u> | <u>(41,905)</u> |
| Cash flow from financing activities | | | |
| Proceeds from share issue | | 22,162 | 24,266 |
| Dividends paid | | (12,845,826) | (14,012,292) |
| Net cash used in financing activities | | <u>(12,823,664)</u> | <u>(13,988,026)</u> |
| Net increase/(decrease) in cash and cash equivalents | | (12,938,817) | 6,070,472 |
| Cash at beginning of financial year | | <u>22,540,562</u> | <u>16,470,090</u> |
| Cash and cash equivalents at end of the year | 18(a) | <u>9,601,745</u> | <u>22,540,562</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of material 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 and KII 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 has 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

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.

(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 23(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.

(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 either 1.50% or 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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

(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 in accordance with AASB 136. 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

Tax Consolidation

The parent entity and K2 Asset Management Ltd 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 is not part of the tax consolidated group and has had no operations since its incorporation on 12 August 2015.

(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. Non-interest bearing loans and receivables are designated as receivable 'at call' and therefore carried at face value.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

(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 2016

There have been no new and amended accounting standards effective for the financial year beginning 1 July 2015 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 2016

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.

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.

The Standard 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

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.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's accounting for its operating leases, the directors have yet to consider the level of this impact.

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.

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 2016

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 roles 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.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3: FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Interest Rate Risk

At 30 June 2016 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 | |
|---|------------------------|------------|---|-----------|----------------------|------------|---|------------|---|-------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| <i>(i) Financial assets</i> | | | | | | | | | | |
| Cash | 4,901,677 | 17,850,889 | 4,699,909 | 4,689,321 | 159 | 352 | 9,601,745 | 22,540,562 | 1.76% | 2.28% |
| Receivables and other current assets | - | - | - | - | 1,229,943 | 24,066,431 | 1,229,943 | 24,066,431 | - | - |
| Total financial assets | 4,901,677 | 17,850,889 | 4,699,909 | 4,689,321 | 1,230,102 | 24,066,783 | 10,831,688 | 46,606,993 | - | - |
| <i>(ii) Financial liabilities</i> | | | | | | | | | | |
| Trade creditors | - | - | - | - | 27,696 | 62,483 | 27,696 | 62,483 | - | - |
| Other creditors | - | - | - | - | 344,036 | 9,127,736 | 344,036 | 9,127,736 | - | - |
| Total financial liabilities | - | - | - | - | 371,732 | 9,190,219 | 371,732 | 9,190,219 | - | - |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 2016 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 2016

NOTE 4: REVENUE

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|-------------------|-------------------|
| Revenues from continuing operations | | | |
| Management fees | | 12,169,083 | 12,840,989 |
| Performance fees | | 1,128,684 | 31,861,524 |
| Interest | (a) | 257,318 | 350,511 |
| Other | | 536,920 | 585,436 |
| | | <u>14,092,005</u> | <u>45,638,460</u> |
| (a) Interest from: | | | |
| Other persons | | 257,318 | 350,511 |
| | | <u>257,318</u> | <u>350,511</u> |

NOTE 5: PROFIT FROM CONTINUING OPERATIONS

| | 2016 \$ | 2015 \$ |
|--|------------------|-------------------|
| Profit from continuing operations before income tax has been determined after the following specific expenses: | | |
| Employee Benefits | | |
| Short-term benefits | 5,744,438 | 14,776,711 |
| Long-term benefits | 207,492 | 1,335,768 |
| Superannuation contributions | 390,530 | 404,644 |
| | <u>6,342,460</u> | <u>16,517,123</u> |
| Depreciation and amortisation expense | | |
| Depreciation of computer and office equipment | 36,893 | 33,556 |
| Depreciation of leasehold improvements | 7,422 | 9,118 |
| | <u>44,315</u> | <u>42,674</u> |
| Amortisation of trademarks and licenses | 567 | 498 |
| | <u>44,882</u> | <u>43,172</u> |
| Marketing expenses | | |
| Advertising | 438,316 | 553,081 |
| K2 Global Equities Fund early investment payment | 173,595 | - |
| Travel expenses | 160,701 | 214,493 |
| Printing and stationery | 38,289 | 35,004 |
| | <u>810,901</u> | <u>802,578</u> |
| Occupancy expenses | | |
| Rental and occupancy | 631,193 | 654,029 |
| Repairs and maintenance | 17,545 | 22,012 |
| | <u>648,738</u> | <u>676,041</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 6: INCOME TAX

| | 2016 \$ | 2015 \$ |
|---|------------------|------------------|
| (a) The components of tax expense: | | |
| Current tax | 853,206 | 8,305,512 |
| Deferred tax | 852,191 | (205,003) |
| Under/(over) provision in prior year | 128,344 | (15,920) |
| <i>Total income tax expense</i> | <u>1,833,741</u> | <u>8,084,589</u> |
| Deferred income tax (revenue)/expense included in income tax expense comprises: | | |
| (Increase)/decrease in deferred tax assets | 852,191 | (205,003) |
| | <u>852,191</u> | <u>(205,003)</u> |
| (b) 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: | | |
| Prima facie income tax payable on profit before income tax at 30% (2015: 30%) | 1,696,555 | 8,089,044 |
| <i>Add tax effect of:</i> | | |
| Non-deductible entertainment | 8,842 | 11,465 |
| | <u>1,705,397</u> | <u>8,100,509</u> |
| <i>Less tax effect of:</i> | | |
| Under/(over) provision in prior year | 128,344 | (15,920) |
| Income tax expense attributable to profit | <u>1,833,741</u> | <u>8,084,589</u> |
| <i>Current tax (receivable)/payable</i> | | |
| Balance at the beginning of the year | 6,783,746 | 2,404,256 |
| Income tax | 853,206 | 8,305,512 |
| Tax payments | (7,868,081) | (3,910,102) |
| Under/(over) provision in prior year | 128,344 | (15,920) |
| Balance at the end of the year | <u>(102,785)</u> | <u>6,783,746</u> |
| <i>The deferred tax assets balance comprises:</i> | | |
| Accruals | 15,900 | 19,290 |
| Employee benefits | 589,176 | 1,507,305 |
| Rent Incentive Liability | 69,328 | - |
| Other | 65 | 65 |
| Balance of deferred tax assets | <u>674,469</u> | <u>1,526,660</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 7: DIVIDENDS ON ORDINARY SHARES

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| (a) Dividends paid or declared | | |
| August 2014 interim dividend paid at 2.0 cents per share 100% franked at the Australian tax rate of 30%* | - | 4,670,116 |
| August 2015 final dividend paid at 4.5 cents per share 100% franked at the Australian tax rate of 30% | 10,509,949 | - |
| February 2016 interim dividend paid at 1.0 cents (2015: 4.0 cents) per share 100% franked (2015:100%) at the Australian tax rate of 30% | 2,335,877 | 9,342,176 |
| | 12,845,826 | 14,012,292 |

* Following the distribution of a dividend of \$4,675,000 from its subsidiary on 12 August 2014, a dividend of \$4,670,116 equalling 2.0 cents per share was declared by K2 Asset Management Holdings Ltd on 13 August 2014, based on 2015 financial year to date profit after tax.

(b) Dividends declared after year end

| | | |
|--|-----------|------------|
| Proposed dividends not recognised at year end at 0.5 cents per share (2015: 4.5 cents) 100% franked (2015: 100% franked) at the Australian tax rate of 30% | 1,167,939 | 10,509,949 |
|--|-----------|------------|

(c) Franking credit balance

| | | |
|---|-----------|-----------|
| 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 | 4,032,616 | 4,552,791 |
|---|-----------|-----------|

NOTE 8: CASH

| | 2016 \$ | 2015 \$ |
|---------------------------------|------------|------------|
| Cash on hand | 159 | 352 |
| Cash at bank | 4,901,677 | 11,099,737 |
| Fund applications held in trust | - | 6,751,152 |
| Cash on deposit | 4,699,909 | 4,689,321 |
| | 9,601,745 | 22,540,562 |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 9: RECEIVABLES

| | 2016 \$ | 2015 \$ |
|-------------------|------------------|-------------------|
| Trade receivables | 1,187,030 | 24,015,297 |
| Other receivables | 42,913 | 51,134 |
| | <u>1,229,943</u> | <u>24,066,431</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

| | 2016 \$ | 2015 \$ |
|-------------|----------------|----------------|
| Prepayments | 175,626 | 175,308 |
| | <u>175,626</u> | <u>175,308</u> |

NOTE 11: PLANT AND EQUIPMENT

| | 2016 \$ | 2015 \$ |
|--------------------------------------|---------------|---------------|
| Leasehold improvements | | |
| At cost | 96,564 | 96,564 |
| Accumulated depreciation | (88,474) | (81,052) |
| | <u>8,090</u> | <u>15,512</u> |
| Computer and office equipment | | |
| At cost | 827,963 | 843,239 |
| Accumulated depreciation | (746,126) | (787,979) |
| | <u>81,837</u> | <u>55,260</u> |
| | <u>89,927</u> | <u>70,772</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

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.

| 2016 | Leasehold Improvements \$ | Computer and Office Equipment \$ | Total \$ |
|--------------------------------------|--|---|---------------------|
| Balance at the beginning of the year | 15,512 | 55,260 | 70,772 |
| Additions | - | 63,470 | 63,470 |
| Disposals | - | - | - |
| Depreciation expense | (7,422) | (36,893) | (44,315) |
| Carrying amount at 30 June 2016 | <u>8,090</u> | <u>81,837</u> | <u>89,927</u> |
| | Leasehold Improvements \$ | Computer and Office Equipment \$ | Total \$ |
| | 2015 | | |
| Balance at the beginning of the year | 21,477 | 50,904 | 72,381 |
| Additions | 3,153 | 37,912 | 41,065 |
| Disposals | - | - | - |
| Depreciation expense | (9,118) | (33,556) | (42,674) |
| Carrying amount at 30 June 2015 | <u>15,512</u> | <u>55,260</u> | <u>70,772</u> |

NOTE 12: INTANGIBLE ASSETS

| | 2016 \$ | 2015 \$ |
|----------------------------------|--------------------|--------------------|
| Trademarks and licenses at costs | 5,666 | 5,666 |
| Accumulated amortisation | (2,955) | (2,388) |
| | <u>2,711</u> | <u>3,278</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13: OTHER NON-CURRENT ASSETS

| | 2016 \$ | 2015 \$ |
|--|---------------|---------------|
| Other financial assets – available for sale non listed investments at cost | 27,000 | 27,000 |
| | <u>27,000</u> | <u>27,000</u> |

NOTE 14: PAYABLES

| | 2016 \$ | 2015 \$ |
|---|----------------|------------------|
| Current payables | | |
| Trade creditors | 27,696 | 62,483 |
| Sundry creditors and accruals | 344,036 | 2,376,584 |
| Payable for fund applications held in trust | - | 6,751,152 |
| Current rent incentive | 52,843 | 37,060 |
| | <u>424,575</u> | <u>9,227,279</u> |
| Non-current payables | | |
| Non-current rent incentive | 178,249 | 231,091 |
| | <u>178,249</u> | <u>231,091</u> |
| | <u>602,824</u> | <u>9,458,370</u> |

NOTE 15: PROVISIONS

| | 2016 \$ | 2015 \$ |
|---------------------------------------|------------------|-------------------|
| Current employee benefits | 2,483,742 | 12,786,110 |
| | <u>2,483,742</u> | <u>12,786,110</u> |
| Non-current employee benefits | 375,313 | 1,937,236 |
| | <u>375,313</u> | <u>1,937,236</u> |
| Aggregate employee benefits liability | <u>2,859,055</u> | <u>14,723,346</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16: CONTRIBUTED EQUITY

| | 2016 \$ | 2015 \$ |
|---------------------------------------|------------------|------------------|
| (a) Issued and paid up capital | | |
| Ordinary shares fully paid | 2,083,675 | 2,061,513 |
| | <u>2,083,675</u> | <u>2,061,513</u> |

| | Consolidated Equity 2016 | | Consolidated Equity 2015 | |
|-------------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | No. of Shares | \$ | No. of Shares | \$ |
| Beginning of the year | 21,200,885 | 2,061,513 | 21,152,285 | 2,037,247 |
| <i>Issued during the year</i> | | | | |
| Share based payments | 33,316 | 22,162 | 48,600 | 24,266 |
| End of the year | <u>21,234,201</u> | <u>2,083,675</u> | <u>21,200,885</u> | <u>2,061,513</u> |

| | Parent Equity 2016 | | Parent Equity 2015 | |
|-------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | No. of Shares | \$ | No. of Shares | \$ |
| Beginning of the year | 233,554,398 | 113,472,429 | 233,505,798 | 113,448,163 |
| <i>Issued during the year</i> | | | | |
| Share based payments | 33,316 | 22,162 | 48,600 | 24,266 |
| End of the year | <u>233,587,714</u> | <u>113,494,591</u> | <u>233,554,398</u> | <u>113,472,429</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.

NOTE 17: RETAINED PROFITS

| | 2016 \$ | 2015 \$ |
|---|------------------|-------------------|
| Retained profits at the beginning of the year | 15,383,036 | 10,516,437 |
| Net profit attributable to members of the consolidated entity | 3,821,442 | 18,878,891 |
| Dividends paid | (12,845,826) | (14,012,292) |
| Retained profits at the end of the financial year | <u>6,358,652</u> | <u>15,383,036</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 18: CASH FLOW INFORMATION

| | 2016 \$ | 2015 \$ |
|--|--------------|--------------|
| (a) Reconciliation of cash | | |
| 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 | 159 | 352 |
| Cash at bank | 4,901,677 | 11,099,737 |
| Fund applications held in trust | - | 6,751,152 |
| Deposits with financial institutions | 4,699,909 | 4,689,321 |
| | 9,601,745 | 22,540,562 |
| (b) Reconciliation of cash flow from operations with profit/(loss) from ordinary activities after income tax | | |
| Profit from ordinary activities after income tax | 3,821,442 | 18,878,891 |
| Non-cash flows in profit from ordinary activities | | |
| Amortisation | 567 | 498 |
| Depreciation | 44,315 | 42,674 |
| Changes in assets and liabilities | | |
| (Increase)/decrease in receivables | 22,836,488 | (22,289,463) |
| (Increase)/decrease in other assets | (318) | 822 |
| Increase/(decrease) in payables | (8,855,546) | 8,920,355 |
| Increase/(decrease) in income tax payable | (6,886,531) | 4,379,490 |
| (Increase)/decrease in deferred taxes | 852,191 | (205,003) |
| Increase/(decrease) in provisions | (11,864,291) | 10,372,139 |
| Net cash flow from operating activities | (51,683) | 20,100,403 |

(c) Restriction over cash

The consolidated entity has a term deposit of \$229,321 (2015: \$229,321) as a guarantee over the office rental at Level 32, 101 Collins Street, Melbourne, Victoria. An additional amount of \$10,588 (2015: nil) is held in a term deposit as a guarantee over the office rental at 1/20 Duke Street, Sunshine Beach, Queensland.

The consolidated entity held nil (2015: \$6,751,152) in trust for investors in the K2 Global Equities Fund as at 30 June 2016. This money was transferred to the Fund prior to the commencement of its operations on 20 July 2015. A current liability of nil (2015: \$6,751,152) was recorded as at 30 June 2016 in recognition that the money was held by the consolidated group on behalf of the Fund's investors. Please refer to note 14 for further information.

On 20 July 2015, the K2 Global Equities Fund was quoted on the ASX under the ASX AQUA rules. As part of this process, K2 Asset Management Ltd received \$11,839,883 in investor applications during the period. This amount is included in receipts from customers of \$49,928,484 in the consolidated statement of cash flows for the year. This money, along with amounts received prior to 30 June 2015, totalling \$18,591,035, was transferred to the Fund prior to the commencement of operations and are included in payments to suppliers and employees of \$42,351,820 in the consolidated statement of cash flows for the year.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19: COMMITMENTS AND CONTINGENT LIABILITIES

| | 2016 \$ | 2015 \$ |
|---|------------------|------------------|
| Lease expenditure commitments | | |
| (a) Operating leases (non-cancellable): | | |
| (i) The consolidated entity leases office facilities in Melbourne and Sunshine Beach under operating leases. 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 property lease agreement for the Sunshine Beach office facilities is a non-cancellable lease with a three year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement allow for annual CPI rental reviews. An option exists to renew the lease at the end of the three year term for an additional three years. The consolidated entity has also entered into a three year lease for corporate entertainment facilities, with rent payable monthly in advance. This agreement ends in March 2017. In the prior year, the consolidated entity leased office facilities in Sydney. This agreement has not been renewed after the completion of the one year term in February 2016. | | |
| (ii) Minimum lease payments | | |
| Not later than one year | 467,874 | 484,641 |
| Later than one year and not later than five years | 883,935 | 1,249,920 |
| Later than five years | - | - |
| Aggregate lease expenditure contracted for at reporting date | <u>1,351,809</u> | <u>1,734,561</u> |

NOTE 20: EARNINGS PER SHARE

| | 2016 \$ | 2015 \$ |
|--|----------------------|----------------------|
| The following reflects the income and share data used in the calculations of basic and diluted earnings per share: | | |
| Net profit | 3,821,442 | 18,878,891 |
| Earnings used in calculating basic and diluted earnings per shares | <u>3,821,442</u> | <u>18,878,891</u> |
| | 2016 | 2015 |
| | No. of Shares | No. of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 233,577,582 | 233,524,173 |
| 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 | <u>233,577,582</u> | <u>233,524,173</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 21: KEY MANAGEMENT PERSONNEL DISCLOSURE

| | 2016 \$ | 2015 \$ |
|---|------------------|------------------|
| Summary of key management personnel compensation as disclosed in the remuneration report. | | |
| Short-term benefits | 1,798,204 | 6,972,021 |
| Long-term benefits paid or due | 2,648,861 | 978,981 |
| Superannuation | 75,074 | 78,042 |
| | <u>4,522,139</u> | <u>8,029,044</u> |
| Maximum performance based long-term incentives payable | 571,542 | 3,354,752 |

NOTE 22: AUDITORS REMUNERATION

| | 2016 \$ | 2015 \$ |
|--|----------------|----------------|
| 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 | 93,730 | 90,285 |
| Other non-audit services - Tax consulting services | 13,966 | 22,290 |
| Other non-audit services - Other consulting services | 1,460 | - |
| | <u>109,156</u> | <u>112,575</u> |

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23: 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 and KII Pty Ltd.

| | Country of Incorporation | Percentage Owned | |
|----------------------------------|--------------------------|------------------|------|
| | | 2016 | 2015 |
| <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% | - |

* KII Pty was incorporated on 12 August 2015 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 \$13,955,877 (2015: \$14,017,176).
- Loan provided to parent by K2 Asset Management Ltd for tax related balances. The balance as at 30 June 2016 was \$36,618 (2015: (\$6,836,685)).
- 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 2016 was \$1,218,234 (2015: \$8,234).
- Establishment and listing costs of \$45,354 (2015: \$24,145) have been recognised as a current asset. These costs are expected to be recovered within 12 months from the K2 Global Equities Fund after it commenced operations.
- Listing costs of \$23,162 (2015: nil) have been recognised as a current asset. These costs are expected to be recovered within 12 months from the K2 Australian Small Cap Fund after it commenced quotation on the ASX under the AQUA Rules on 15 December 2015.
- 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 previously provided investment management services to the K2 International Opportunities Fund, this fund closed on 10 March 2015 with all funds returned to investors. 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 \$13,834,687 (2015: \$45,287,949) has been recognised in the Statement of Comprehensive Income for the year ended 30 June 2016. Of this revenue \$12,169,083 (2015: \$12,840,989) related to management fees and \$1,128,684 (2015: \$31,861,524) to performance fees. Please refer to Note 4 for further information.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23: RELATED PARTY DISCLOSURES (CONT'D)

- 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 24: PARENT ENTITY DETAILS

| | 2016 \$ | 2015 \$ |
|--|-------------|-------------|
| Summarised presentation of the parent entity, K2 Asset Management Holdings Ltd, financial statements are as follows: | | |
| (a) Summarised Statement of Financial Position | | |
| Assets | | |
| Current assets | 1,404,739 | 7,049,804 |
| Non-current assets | 113,700,765 | 113,700,765 |
| Total assets | 115,105,504 | 120,750,569 |
| Liabilities | | |
| Current liabilities | 47,811 | 6,793,778 |
| Total liabilities | 47,811 | 6,793,778 |
| Net Assets | 115,057,693 | 113,956,791 |
| Equity | | |
| Share capital | 113,494,591 | 113,472,429 |
| Retained earnings | 1,563,102 | 484,362 |
| Total Equity | 115,057,693 | 113,956,791 |
| (b) Summarised Statement of Comprehensive Income | | |
| Profit for the year | 13,924,566 | 14,005,253 |
| Total comprehensive income for the year | 13,924,566 | 14,005,253 |

NOTE 25: SUBSEQUENT EVENTS

There has been no matter or circumstance, which has arisen since 30 June 2016 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2016, of the consolidated entity or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2016, of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26: SEGMENT INFORMATION

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

In 2016 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 | 6,024,894 |
| K2 Select International Absolute Return Fund | 3,138,838 |
| K2 Global High Alpha Fund | <u>1,615,384</u> |
| Total | <u>10,779,116</u> |

In 2015 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 | 17,150,471 |
| K2 Asian Absolute Return Fund | 7,772,470 |
| K2 Select International Absolute Return Fund | <u>14,890,095</u> |
| Total | <u>39,813,036</u> |

NOTE 27: 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 28: 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 21 to 45 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 2016 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 2016.

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



Campbell Neal
Director

Melbourne
10 August 2016



Hollie Wight
Director

**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 Financial Report

We have audited the accompanying financial report of K2 Asset Management Holdings Ltd and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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**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**

Independence

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

Opinion

In our opinion:

- (a) the financial report of K2 Asset Management Holdings Ltd and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report 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 2016. 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.

Opinion

In our opinion, the Remuneration Report of K2 Asset Management Holdings Ltd and controlled entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.



K L BYRNE
Partner

10 August 2016



PITCHER PARTNERS
Melbourne

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