

K2 Australian Absolute Return Fund

ARSN 106 882 302

Financial statements

For the year ended 30 June 2009

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Directors' report

The directors of K2 Asset Management Ltd (ABN 95 085 445 094), the Responsible Entity of K2 Australian Absolute Return Fund, present their report together with the financial report of K2 Australian Absolute Return Fund (the "Fund") for the year ended 30 June 2009 and the auditors report thereon.

Principal activities

The Fund continued to invest in accordance with target asset allocations as set out in the current Product Disclosure Statement and in accordance with the provisions of the Fund constitution.

The Fund did not have any employees during the year.

Various short selling restrictions have been placed on the market throughout the year. This has had minimal impact on the Fund's operations with various other investment instruments available under the Fund's constitution being utilised. With the restrictions easing, the Investment Manager sees no amendments being required to the Fund's investment strategy.

There were no other significant changes in the nature of the Fund's activities during the year.

Directors

The following persons held office as directors of K2 Asset Management Ltd during the year or since the end of the year and up to the date of this report:

Campbell W Neal
Mark S Newman
Robert C Hand
Hollie A Wight

Service providers

The Responsible Entity and Investment Manager of the Fund is K2 Asset Management Ltd.

The Custodian of the Fund is Morgan Stanley & Co International plc.

The Administrator of the Fund is State Street Australia Limited.

Review and results of operations

The Fund maintains its long/short investment strategy in listed equities and other investment instruments in Australia and New Zealand permitted by the Fund's constitution. It aims to preserve capital over the medium term and generate a 15% per annum return after fees over a three to five year investment cycle.

The investment policy of the Fund continues to be that detailed in the current product disclosure statement and in accordance with the provisions of the governing documents of the Fund.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
Operating profit/(loss) before finance costs attributable to unitholders	<u>7,810</u>	<u>(29,076)</u>

Directors' report (continued)

Unit redemption prices

Unit redemption prices (quoted ex-distribution) are shown as follows:

	2009	2008
	\$	\$
At 30 June	154.16	151.23

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The results of the Fund's operations will be affected by a number of factors, including the performance of the investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of K2 Asset Management Ltd (ABN 95 085 445 094) or the auditors of the Fund. So long as the officers of K2 Asset Management Ltd (ABN 95 085 445 094) act in accordance with the Fund constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 13 of the financial report.

No fees were paid out of the assets of the Fund to the Directors of the Responsible Entity during the year.

Units held in the Fund by the Responsible Entity or its related parties as at the end of the financial year are disclosed in note 13 of the financial report.

Directors' report (continued)

Interests in the Fund

The movement in units on issue in the Fund during the year is set out below:

	30 June 2009 No.'000	30 June 2008 No.'000
Units on issue - 1 July	1,493	1,046
Units issued during the year	356	539
Units redeemed during the year	<u>(162)</u>	<u>(92)</u>
Units on issue - 30 June	<u>1,687</u>	<u>1,493</u>
Value of assets	\$'000	\$'000
Value of Fund assets at 30 June	<u>289,855</u>	<u>248,278</u>

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

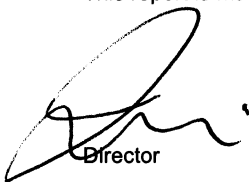
Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Lead Auditor's Independence Declaration

A copy of the Lead Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of K2 Asset Management Limited.



Director

Melbourne
 13 August 2009



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of K2 Australian Absolute Return Fund

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A J Waters

Partner

Melbourne

13 August 2009

Income statement

		Year ended	
		30 June	30 June
		2009	2008
	Notes	\$'000	\$'000
Investment income			
Dividend income		6,111	5,186
Interest income		4,987	7,989
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	<u>4,432</u>	<u>(33,487)</u>
Total net investment income/(loss)		<u>15,530</u>	<u>(20,312)</u>
Expenses			
Responsible Entity's fees	13	107	114
Management fees	13	3,388	3,515
Auditor's remuneration	5	34	35
Performance fees	13	1,227	-
Administrative expenses		256	245
Transaction costs		2,254	3,621
Other operating expenses	4	<u>454</u>	<u>1,234</u>
Operating expenses before finance costs		<u>7,720</u>	<u>8,764</u>
Profit/(loss) from operating activities		<u>7,810</u>	<u>(29,076)</u>
Finance costs attributable to unitholders			
Distributions to unitholders		-	-
Change in net assets attributable to unitholders		<u>(7,810)</u>	<u>29,076</u>
Net profit/(loss) for the year		<u>-</u>	<u>-</u>

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

Balance sheet

		As at	
	Notes	30 June 2009 \$'000	30 June 2008 \$'000
Assets			
Cash and cash equivalents	8	53,347	123,370
Receivables	11	1,566	778
Due from brokers - receivable for securities sold		11,686	27,100
Financial assets held at fair value through profit or loss	9	<u>223,256</u>	<u>97,030</u>
Total assets		<u>289,855</u>	<u>248,278</u>
Liabilities			
Bank overdraft	8	12,159	-
Payables	12	6,824	1,269
Due to brokers - payable for securities purchased		7,679	4,621
Financial liabilities held at fair value through profit or loss	10	<u>3,900</u>	<u>16,804</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>30,562</u>	<u>22,694</u>
Net assets attributable to unitholders - liability	7	<u>259,293</u>	<u>225,584</u>

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

Statement of recognised income and expense

As the Fund has no equity, the Fund has not included any items of recognised income and expense for the current or comparative year.

Cash flow statement

	Notes	Year ended	
		30 June 2009 \$'000	30 June 2008 \$'000
<i>Cash flows from operating activities</i>			
Dividends received		5,010	5,882
Interest received		5,261	7,976
Other income received		40	(212)
Management fees paid		(3,353)	(14,301)
Payment of other expenses		(3,278)	(5,150)
Net cashflow from operating activities	14(a)	<u>3,680</u>	<u>(5,805)</u>
<i>Cash flows from investing activities</i>			
Proceeds from sale of financial instruments held at fair value through profit or loss		1,254,214	1,297,929
Purchase of financial instruments held at fair value through profit or loss		(1,370,480)	(1,257,087)
Net cashflow from investing activities		<u>(116,266)</u>	<u>40,842</u>
<i>Cash flows from financing activities</i>			
Proceeds from applications by unitholders		53,567	54,583
Payments for redemptions by unitholders		(23,166)	(14,895)
Distributions paid		-	(14,195)
Net cashflow from financing activities		<u>30,401</u>	<u>25,493</u>
Net (decrease)/increase in cash and cash equivalents		(82,185)	60,530
Cash and cash equivalents at the beginning of the year		123,370	62,948
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>3</u>	<u>(108)</u>
Cash and cash equivalents at the end of the year	8	<u>41,188</u>	<u>123,370</u>

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

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