

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

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2011**

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**TABLE OF CONTENTS**

	<b>Page</b>
Chairman's Report	3
Directors' Report	5
Auditor's Independence Declaration	11
Shareholder Information	12
Corporate Governance Statement	14
Financial Report for the year ended 30 June 2011	
Consolidated Statement of Comprehensive Income	20
Consolidated Statement of Financial Position	21
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	47
Independent Auditor's Report	48

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

**CHAIRMAN'S REPORT**

The 2011 financial year seemed to be divided in two extreme halves. There was the promising and active first half which saw some indices actually achieve new highs. Inevitably some gains were returned by the volatile and uncertain second half leading up to June. With markets still fragile, it didn't take much to turn market sentiment. Problems such as Europe's sovereign debt, the debt-burdened US, fear of an economic slowdown in China and an array of natural and nuclear disasters kept the markets in check. Showing much resilience through all the volatility was the Australian dollar which rose a spectacular 27.8% against the US dollar, 18.7% against the pound, 16.1% to the yen and 7.8% to the Euro. Global markets finished the 2011 financial year with: the US Dow Jones +27.0%, Japanese Nikkei +4.6%, Hong Kong Hang Seng +11.3% and the Australian All Ordinaries Accumulation Index +12.2%.

K2 Asset Management Holdings Ltd continued to build on its prior year results with a year-end profit of \$15,534,351 (2010: \$14,814,095 which included a one off tax benefit of \$8,541,323). This represents an increase of 146.1% in profit before tax, a strong outcome in light of the mixed trading conditions. In line with growth in funds under management (FUM), management fees increased by 26% to \$14,476,369 (2010: \$11,454,909). A fundamental change in the funds' distribution methods saw performance fees payable half yearly for the first time in December 2010. All funds paid various levels of performance fees throughout the year totalling \$25,799,507 (2010: \$5,368,148). The interim crystallisation of performance fees allowed an interim dividend of 6.0 cents (23 February 2011) franked to 80% to be paid to shareholders. K2 maintains its intention to pay dividends when possible and declared an 80% franked dividend on 9 August 2011 of 1.3 cents per share.

Our investment team continue to produce solid returns with the majority of our funds beating their respective benchmarks convincingly. The performance of the K2 funds and funds under management as at 30 June 2011 are detailed in the table below:

<b>K2 Funds</b>	<b>Fund performance*</b>	<b>Index performance #</b>	<b>FUM \$million</b>
K2 Australian Absolute Return Fund	+10.0 %	+12.2%	486.6 AUD
K2 Select International Absolute Return Fund	+18.2 %	+3.2%	249.0 AUD
K2 Asian Absolute Return Fund	+12.2 %	+2.4%	170.3 AUD
Other Funds	Confidential		44.3 AUD
<b>Total</b>			<b>950.3 AUD</b>

The above information is unaudited. \*Year to date figures are based on a financial year ended 30 June. # The K2 Australian Absolute Return Fund is compared to the All Ordinaries Accumulation Index, the Select International Absolute Return Fund is compared to the MSCI AC World Index (AUD), the K2 Asian Absolute Return Fund is compared to the MSCI Asia Pacific ex Japan Index (AUD). FUM figures are pre distributions payable for 30 June 2011.

FUM reached an all-time peak of \$1.05 billion in April 2011 and finished the year at \$950 million, up 13.6% for the financial year. Expenses increased for the 2011 year mainly due to the payment of performance bonuses. With personnel bonuses directly linked to fund performance and performance fees this provides the right alignment between employees and shareholders. For K2, people are its most important asset and hence it is important that we reward and retain employees as they are vital to our continued success. The investment management team and our support staff have remained largely unchanged with any movements focused on succession planning.

Technology has always been a behind-the-scenes partner of K2 providing benefits to us in-house and to our clients alike. Innovative research tools based on proprietary software enabling detailed analysis of all aspects of performance are increasingly used to improve the performance of our investment managers. To our clients we continue to focus on improving the amount of quality data available and to this end there are a number of projects in various stages that will improve internal efficiencies and unit holder communication that will come to fruition in the coming year.

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

**CHAIRMAN'S REPORT (cont'd)**

We begin the new financial year with cautious optimism. Economic recovery will be largely dependent on various monetary policies implemented by a number of governments worldwide. Overall there seems to be as many upside risks to the global growth outlook as there are downside risks. However, in saying that, we believe all major global indices will show gains over the next financial year. With our active management style we will continue to focus on identifying incorrectly valued opportunities. We further believe that K2 will continue to grow its funds under management and expect the business to continue to improve in all areas further enhancing the quality, reputation and profitability of K2.



Campbell W. Neal  
Chairman

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

**DIRECTORS' REPORT**

The directors present their report together with the financial report of the consolidated entity consisting of K2 Asset Management Holdings Ltd and the entity it controlled, K2 Asset Management Ltd (the Company), for the financial year ended 30 June 2011 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 at the end of the financial year and up to the date of this report:

Campbell Neal	(Managing Director and Chief Executive Officer)
Mark Newman	(Chief Investment Officer and Executive Director)
Robert Hand	(Executive Director)
Hollie Wight	(Chief Financial Officer and Executive Director)

**PRINCIPAL ACTIVITIES**

K2 Asset Management Holdings Ltd is the holding company of K2 Asset Management Ltd. The principal activity of K2 Asset Management Ltd during the financial year was funds management.

**RESULTS**

The consolidated profit after income tax attributable to the members of K2 Asset Management Holdings Ltd was \$15,534,351 (2010: \$14,814,095 which included a one off tax benefit of \$8,541,323). For further information on income tax please refer to Note 6 of the financial statements.

**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 performance and funds under management please refer to the Chairman's Report on page 3.

Revenue from management and performance fees was \$14,476,369 and \$25,799,507 respectively. Total revenue amounted to \$41,494,420. Please refer to the Statement of Comprehensive Income on page 20 for further details.

The K2 Funds changed from distributing taxable income annually to unit holders to distributing on a semi-annual basis commencing 31 December 2010. This change resulted in performance fees crystallising semi-annually in line with the accounting period in question.

**DIVIDENDS**

Details of the dividend declared by K2 Asset Management Holdings Ltd for the financial year are as follows:

30 June 2011: \$3,010,097 (2010: \$10,285,627) equalling 1.3 cents (2010: 4.5 cents) per share.

Interim dividends declared during the year were as follows:

23 February 2011: \$13,892,755 (2010: nil) equalling 6.0 cents (2010: nil) per share.

**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.

**AFTER BALANCE DATE EVENTS**

Since the end of the financial year equity markets have fallen. Significant negative movements have the ability to impact the Company's future income in respect to management and performance fees. Please refer to Note 3 for further information on market risk.

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

**DIRECTORS' REPORT (cont'd)**

There have been no other matters or circumstances that have arisen 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 amounts contained in the report and in the financial report have been rounded to the nearest dollar (where rounding is applicable).

**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 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:	2011	2010
	\$	\$
Employee share plan review	1,650	30,770
Tax consulting services	34,205	nil

**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 Law 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.

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

**DIRECTORS' REPORT (cont'd)**

**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 Office 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 26 years' experience in both stockbroking and funds management.

***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 26 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.

***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.

***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.

***Ruth Marian McClelland*** BA/LLB(Hons)

Ms McClelland joined K2 in February 2006 in the role of in-house Legal Counsel and Compliance Manager, and was appointed Company Secretary in November 2006. Prior to joining K2 Ruth was a commercial lawyer at Lander & Rogers Lawyers, focusing on financial services law.

**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 were:

	K2 Asset Management Holdings Ltd		K2 Asset Management Ltd	
	Eligible to attend <sup>(1)</sup>	Attended	Eligible to attend <sup>(2)</sup>	Attended
Campbell Neal	13	11	12	11
Mark Newman	13	11	12	11
Robert Hand	13	13	12	11
Hollie Wight	13	13	12	12

<sup>(1)</sup> In addition to the 13 meetings, the directors of K2 Asset Management Holdings Ltd passed circulated written resolutions on 1 occasion during the financial year. All directors were signatories to these resolutions.

<sup>(2)</sup> In addition to the 12 meetings, the directors of K2 Asset Management Ltd passed circulated written resolutions on 3 occasions during the financial year. All directors were signatories to these resolutions.

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

**REMUNERATION REPORT**

**REMUNERATION POLICIES**

The nature and extent of remuneration received by key management personnel is reviewed and agreed by the board of directors as a whole. The board obtains professional advice where necessary to ensure that the Company attracts and retains talented and motivated directors and employees who can enhance business performance through their contributions and leadership.

All staff are employed and remunerated by K2 Asset Management Ltd. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

Remuneration of employees consists of a mix of fixed and variable pay with the variable component being provided via the long-term and short-term incentive schemes.

Short-term incentives are in the form of an annual cash bonus that extends to all eligible staff. For staff to be eligible for a bonus the Company must first meet predetermined budgeted results. These determinates include maintaining a cost to income ratio of 50% (defined as total expenses divided by management and performance fees) and the performance of the funds for which the Company acts as investment manager. As such, the level of bonuses paid is directly linked to the financial performance of the Company and all employees (including directors) have specified key performance indicators that they are required to meet depending on the position they hold. Key performance indicators include, but are not limited to, investment manager return on capital, successful implementation of internal projects, positive fund flows and adherence to the K2 internal trademarks. Individual performance is assessed to determine whether the key performance indicators have been met. Bonuses are determined by the board and can be paid semi-annually as at 31 December and 30 June. Short-term incentives paid or payable in 2011 were \$8,775,705 (2010: \$1,288,161).

A long-term incentive is provided via a performance-based deferred cash bonus which represents a portion of the short-term incentive that is deferred over three tranches payable over two years. Deferred bonus payments are only paid if the employee remains at the Company and continues to meet specified key performance indicators. The deferred bonus can be revoked at the board's discretion. There is currently \$1,708,820 (2010: nil) outstanding in deferred bonuses.

Long-term incentives determined in previous financial years allow for a limited number of staff to use the after tax proceeds of bonuses to purchase equity at market value in K2 Asset Management Holdings Ltd. There is currently \$143,333 (2010: \$253,333) outstanding of which \$110,000 was paid in the 2011 financial year (2010: \$76,667). The net amount paid to employees in the 2011 year resulted in 80,452 shares (2010: 79,036) in K2 Asset Management Holdings being issued for a consideration of \$56,130 (2010: \$39,146). The final payment for these incentives will be made in October 2012.

Special rights have been issued to a small number of employees under the historical incentive plan. These rights vest over a four year period with one-third converting into shares in K2 Asset Management Holdings Ltd on the second, third and fourth anniversaries after grant date. Rights were issued at market value and require payment by the employee on the above mentioned anniversaries. Special rights provide the employee with a potential economic benefit, are only available for conversion if the employee remains with the Company and can be revoked at the board's discretion. After October 2007 no further rights have been or will be issued under this plan. The final conversion occurs in October 2011.

The *Corporations Act 2001* refers to key management personnel as those having authority and responsibility for planning, directing and controlling the activities of the entity. The only employees with such authority are the directors of the Company.

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

**REMUNERATION REPORT (cont'd)**

For the full financial year K2 Asset Management Ltd paid: Campbell Neal a salary of \$2,800,519 (2010: \$873,550) of which 80% was performance based (2010: 36%) and superannuation of \$25,000 (2010: \$25,000); Mark Newman a salary of \$1,472,869 (2010: \$553,350) of which 65% was performance based (2010: 8%) and superannuation of \$25,000 (2010: \$25,000); Robert Hand a salary of \$549,159 (2010: \$381,250) of which 33% was performance based (2010: 6%) and superannuation of \$25,000 (2010: \$25,000); Hollie Wight a salary of \$712,520 (2010: \$268,350) and superannuation of \$15,199 (2010: \$14,500). Ms Wight also received a benefit of Special Rights<sup>1</sup> of \$91,182 (2010: \$52,650). Of Hollie's total remuneration 72% was performance related for the 2011 financial year (2010: 43%).

Ruth McClelland in the role of Company Secretary was paid a salary of \$149,178 (2010: \$85,850), superannuation of \$11,265 (2010: \$6,150) and a benefit of Special Rights<sup>1</sup> of \$91,182 (2010: \$52,650). Of Ruth's total remuneration 52% was performance related for the 2011 financial year (2010: 49%).

In addition to the amounts noted above, the maximum performance-based deferred cash bonus payable to the directors of the Company over three instalments with the last instalment being in October 2013 are: Campbell Neal \$790,862 (2010: nil); Mark Newman \$339,761 (2010: nil); Robert Hand \$66,922 (2010: nil); Hollie Wight \$177,487 (2010: nil). The maximum performance-based deferred cash bonus payable to Ruth McClelland in the role of Company Secretary is \$21,250 (2010: nil).

**DIRECTORS' INTERESTS IN SHARES OR SPECIAL RIGHTS**

Directors' relevant interests in shares or special rights of K2 Asset Management Holdings Ltd are detailed below.

	<u>Ordinary Shares</u>	<u>Special Rights</u>
Campbell Neal	86,096,272	-
Mark Newman	61,458,587	-
Robert Hand	16,366,976	-
Hollie Wight	5,168,479	155,957

The above shareholdings reflect shares held by companies and other entities related to the directors. For further details on relevant interests refer to page 12 of this report and the Company's ASX notices regarding substantial shareholdings.

**SHARES UNDER OPTION/SPECIAL RIGHTS**

At the date of this report, special rights exist to the equivalent of 1,754,535 ordinary shares in K2 Asset Management Holdings Ltd that have been granted under the historical employee incentive scheme. These rights were issued at various prices with the last to expire on 8 October 2011.

There are no options on issue in the Company.

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<sup>1</sup> Special rights are measured at fair value at grant date and the net benefit to employees is expensed over the vesting period of the special rights in accordance with AASB2: Share Based Payments.

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

**REMUNERATION REPORT (cont'd)**

**SHARES ISSUED ON EXERCISE OF OPTIONS OR SPECIAL RIGHTS**

In October and November of the financial year ended 30 June 2011 a total of 2,895,977 (2010: 4,924,554) ordinary shares in K2 Asset Management Holdings Ltd were issued as a result of the exercise of special rights granted under the historical incentive scheme. Of the total ordinary shares issued 155,957 (2010: 1,081,018) were issued to Hollie Wight and 155,957 (2010: 112,224) to Ruth McClelland.

Signed in accordance with a resolution of the directors.



**Campbell Neal  
Director**



**Hollie Wight  
Director**

Melbourne  
9 August 2011

**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 2011, 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.



B J BRITTEN  
Partner  
9 August 2011



PITCHER PARTNERS  
Melbourne

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

**SHAREHOLDER INFORMATION**

**TWENTY LARGEST SHAREHOLDERS**

The names of the 20 largest holders of ordinary securities as at 5 August 2011 are as follows:

	Number of shares	%
MR CAMPBELL WILLIAM NEAL	82,168,419	35.49
MR MARK NEWMAN	44,927,110	19.40
ABRO INVESTMENTS PTY LTD	16,366,976	7.07
JAWATTE NOMINEES PTY LTD	8,890,762	3.84
MS NEWMAN FAMILY FOUNDATION PTY LTD	8,555,556	3.69
MSN SUPERANNUATION NOMINEES PTY LTD	7,855,921	3.39
MR PETER RONEC	7,503,796	3.24
CRUSADE NOMINEES PTY LTD	6,711,400	2.90
MR JOSHUA KITCHEN	5,505,953	2.38
DHC INVESTMENTS PTY LTD	5,106,835	2.21
CWN SUPERANNUATION NOMINEES PTY LTD	3,927,853	1.70
TG INVESTMENT CORP PTY LTD	3,424,328	1.48
MR PETER RONEC & MS SUZANNE RUMBLE	3,036,333	1.31
UBS WEALTH MANAGEMENT	1,958,214	0.85
LUCKNOW SECURITIES PTY LTD	1,583,967	0.68
GEHAR PTY LTD	945,000	0.41
MS MARY TE	797,267	0.34
MR ERIC GEORGE BAKER & MRS JANINE MARIE BAKER	640,500	0.28
NATIONAL NOMINEES LIMITED	584,005	0.25
EQUITAS NOMINEES PTY LIMITED	470,390	0.20
<b>Total held by top 20</b>	<b>210,960,585</b>	<b>91.11</b>

Under chapter 6 of the Corporations Act 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) 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 184,762,676 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 188,690,529. Mark Newman has a relevant interest in an additional 16,531,477 shares, bringing his total substantial holding to 201,294,153 shares. Hollie Wight has a relevant interest in an additional 61,644 shares, bringing her substantial holding to 184,824,320. David Poppenbeek has a relevant interest in an additional 310,000 shares, bringing his total substantial holding to 185,072,676 shares. Peter Ronec has a relevant interest in an additional 3,036,333 shares, bringing his total substantial holding to 187,799,009 shares. Roger Watson has a relevant interest in an additional 376,905 shares, bringing his total substantial holding to 185,139,581 shares. Joshua Kitchen has a relevant interest in an additional 42,246 shares, bringing his total substantial holding to 184,804,922. Andrew Hall has a relevant interest in an additional 30,010 shares, bringing his total substantial holding

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

**SHAREHOLDER INFORMATION (cont'd)**

to 184,792,686. Timothy Holt has a relevant interest in an additional 20,000 shares, bringing his total substantial holding to 184,782,676.

**Distribution of securities**

Security Class: Fully Paid Ordinary Shares

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<b>Holdings Ranges as at 5 August 2011</b>	<b>Holders</b>
1-1,000	41
1,001-5,000	197
5,001-10,000	211
10,001-100,000	333
100,001-9,999,999,999	54
<b>Total number of holders</b>	<b>836</b>

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<b>Number of holders of less than a marketable parcel</b>	<b>26</b>
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**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. On a poll, partly paid shares confer a fraction of a vote in proportion to the amount paid up on the share. There are presently no partly paid shares.

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.

**2011 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 2011. Details of all resolutions being put to shareholders will be distributed prior to the meeting.

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

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

**CORPORATE GOVERNANCE STATEMENT**

The directors and management of the consolidated entity are committed to maintaining best practice in corporate governance. When adopting key corporate governance policies the board has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition) ("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.au](http://www.k2am.com.au)) under Shareholder Corporate Governance.

The following statement outlines the Company's compliance with the ASX Recommendations.

**1. BOARD OF DIRECTORS**

The board's structure is as follows.

<b>Director</b>	<b>Date of Appointment K2 Asset Management Ltd</b>	<b>Date of Appointment K2 Asset Management Holdings Ltd</b>
Campbell Neal (Chair)	1 March 1999	27 March 2007
Mark Newman	5 May 1999	27 March 2007
Robert Hand	3 November 2001	27 March 2007
Hollie Wight	27 April 2005	27 March 2007

**ROLES AND RESPONSIBILITIES OF THE BOARD**

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 sets out, among other things, the board requirements as described below:

- oversight of strategic financial objectives;
- nomination, appointment and monitoring of board and management;
- approving and monitoring risk, compliance and corporate governance;
- supervising secretarial and other matters such as convening shareholder meetings, issuing shares, major litigation and continuous disclosure; and
- initiating plans and changes, and delegating to senior management or committees where appropriate.

**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 7 of this report. In accordance with ASX Recommendation 2.6, 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 detail 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 Principle 2.1 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 2.1 (independent majority of directors), 2.2 (independent chair) and 2.3 which states that the roles of chair and managing director should not be performed by the same person. The board recognises that following these 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 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 recommendations. The board considers that it has the relevant experience in the industry in which it operates and is appropriately structured to perform its

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

**CORPORATE GOVERNANCE STATEMENT (cont'd)**

duties in a manner that is in the best interests of the Company and its shareholders from both a long term strategic and operations perspective.

ASX Recommendation 2.4 states that the board should establish a nomination committee. For details on the Company's committees see Committees of the Board on page 16.

**TRAINING**

In accordance with the commentary on ASX Recommendations 1.2 and 2.5, 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 (these cover matters including the culture and values of the company and director interaction with each other, senior executives and other stakeholders);
- the rights, duties and responsibilities of directors, senior executives and employees as applicable;
- office procedures, meetings and administrative information; and
- legal and regulatory obligations specific to K2 Asset Management Ltd as holder of an Australian financial services licence.

In accordance with the ASX commentary on Recommendation 2.5, all directors have access to, and do access, continuing education to enhance their skills and knowledge.

**MEETINGS OF THE BOARD**

The board meets formally at least eight 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.

**RETIREMENT AND RE-ELECTION**

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.

**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.

**COMPANY SECRETARY**

The role of the Company secretary is consistent with the guidelines on the secretary's role provided under Recommendation 2.5.

**PERFORMANCE ASSESSMENT**

As set out in the board charter the board completes a performance evaluation on an annual basis. This includes review of the board, individual directors (who also represent the Company's senior executives) and committees (if any) and assesses performance against the requirements of the board charter, against criteria determined by the board from time to

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

**CORPORATE GOVERNANCE STATEMENT (cont'd)**

time and against the requirements of the constitution. Goals and objectives of the board are also established for the forthcoming year.

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. This review takes place semi-annually.

Performance evaluations of all employees (including directors and senior executives) are undertaken on or about 31 December and 30 June on a semi-annual basis. The board considered and approved employee remuneration for the 2011/12 financial year at a meeting on 1 July 2011.

**2. COMMITTEES OF THE BOARD**

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 will be dealt with by the full board. External advice is sought on particular matters where the board considers it necessary.

ASX Recommendation 2.4 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. Commentary on ASX Recommendation 2.4 states that, "for smaller boards, the same efficiencies may not be derived from a formal committee structure." The board currently has the power and 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 states that the board should establish an audit committee and Recommendation 4.2 describes which persons the committee should consist of. Recommendation 4.3 states that this committee should have a formal charter. As stated in the Company's statement of corporate governance principles, the board has not currently established such a committee and therefore Recommendations 4.1, 4.2 and 4.3 have not been adopted. The board agrees with ASX commentary on Recommendation 4.1, which recognises that, "for smaller boards, the same efficiencies may not be derived from a formal committee structure."

The functions of an audit committee that are carried out by the board include:

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

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

ASX Recommendation 8.1 provides that the board should establish a remuneration committee and 8.2 describes its structure. As stated previously, the Company does not presently have such a committee due to its operations and size, and accordingly does not comply with Recommendation 8.1 or 8.2. As recognised in the commentary to Recommendation 8.1, "for smaller boards, the same efficiencies may not be derived from a formal board committee."

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

**CORPORATE GOVERNANCE STATEMENT (cont'd)**

As stipulated by the Company's corporate governance summary, all remuneration is assessed as part of the performance reviews undertaken on a semi-annual basis. 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 has engaged professional independent advice in this area to review its remuneration arrangements and to assist in developing a remuneration policy and incentive scheme.

ASX Recommendation 8.3 states that companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. This recommendation is not currently applicable as the Company has no non-executive directors. The constitution of the Company does distinguish the appropriate remuneration components for executive and non-executive directors if reference is required in the future.

**3. AUDIT GOVERNANCE**

**APPOINTMENT OF AUDITORS**

The Company's current external auditors are Pitcher Partners.

**INDEPENDENCE DECLARATION**

*The Corporations Act 2001 (Cth)* 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 investigating accounting services).

**ATTENDANCE AT ANNUAL GENERAL MEETINGS**

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.

**4. COMPANY POLICIES**

**CODE OF CONDUCT**

The Company has adopted a code of conduct for all employees and directors of the Company. The code of conduct aims to establish Company values and maintain the highest level of ethical standards, corporate behaviour and accountability.

The code describes:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to meet legal obligations and the reasonable expectations of stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

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

**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.

**DIVERSITY**

In July 2011 the Company made available on its website (in summary form) a diversity policy which requires the board to establish measurable objectives in relation to gender diversity. These objectives can be broken down into three key areas:

- valuing diversity in the selection and appointment of directors and employees;
- a culture that takes into account people's goals, domestic responsibilities and cultural backgrounds, and ensuring work practices which recognise that employees may have different domestic responsibilities throughout their careers; and
- defining and maintaining the mix of skills and diversity which the board desires for its membership.

In accordance with the policy and ASX Recommendation 3.2 and 3.3, from 2012 the Company will disclose in its annual report:

- the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and the progress towards achieving them; and
- the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

In accordance with ASX Recommendation 3.4, the Company's board charter includes an obligation to report annually on the relative proportion of women and men in the workforce at all levels of the Company.

**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 times permitted within the policy.

Company shares can only be traded during the 21 days following the announcement of the Company's yearly and half-yearly results. If employees wish to trade during these periods written approval must be obtained from a director and a signed declaration that they are not in possession of material non-public information must be presented. These trading windows do not apply to transfers between an individual's private entities.

**FINANCIAL REPORTING**

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 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.

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

**CORPORATE GOVERNANCE STATEMENT (cont'd)**

**RISK MANAGEMENT AND RECOGNITION**

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 risk management group which identifies and monitors the risks faced by the Company and recommends mitigation strategies. The risk management group reports to the board at regular intervals on issues such as compliance, insurance, occupational health, protection of client funds and safety and financial issues.

Management and employees are ultimately responsible to the board for the Company's system of internal control and risk management.

The managing director and the chief financial officer provide the board with an annual written declaration that the statement given relating to the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. This was received on 9 August 2011. In addition, the managing director provides the board with an annual written statement that the Company's risk management and internal compliance and control system is operating effectively in all material respects.

**CONTINUOUS DISCLOSURE**

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

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 that the standards, protocols and the requirements 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 requirements 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 performance of the funds for which K2 Asset Management Ltd acts as investment manager and funds under management. As recommended in ASX Principle 5, each announcement goes through a thorough review and authorisation process prior to lodgement.

**SHAREHOLDER COMMUNICATION**

The board has approved, as part of the continuous disclosure 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.

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.

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011 \$	2010 \$
Revenue	4	41,494,420	17,589,964
Employee benefits expense	5	(17,198,780)	(6,319,989)
Depreciation and amortisation expenses	5	(122,550)	(133,594)
Marketing expenses	5	(586,805)	(930,034)
Occupancy expenses	5	(606,058)	(560,240)
Professional expenses		(397,396)	(327,577)
Technology expenses		(165,888)	(164,549)
Other expenses		(61,426)	(71,644)
		(19,138,903)	(8,507,627)
Finance costs		-	-
<b>Profit before income tax</b>		22,355,517	9,082,337
Income tax benefit/(expense)	6	(6,821,166)	5,731,758
<b>Total comprehensive income for the year</b>		15,534,351	14,814,095
Basic earnings per share (cents)	20	6.73	6.52
Diluted earnings per share (cents)	20	6.66	6.35

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011 \$	2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	13,900,030	14,174,214
Receivables	9	1,774,942	4,893,833
Current tax receivable	6	-	476,740
Other	10	203,613	168,442
<b>TOTAL CURRENT ASSETS</b>		<b>15,878,585</b>	<b>19,713,229</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	11	198,235	223,477
Intangible assets	12	1,128	1,328
Deferred tax assets	6	5,903,869	5,402,099
<b>TOTAL NON-CURRENT ASSETS</b>		<b>6,103,232</b>	<b>5,626,904</b>
<b>TOTAL ASSETS</b>		<b>21,981,817</b>	<b>25,340,133</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	1,296,322	2,245,334
Current tax payable	6	3,192,091	-
Provisions	14	1,322,528	585,383
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,810,941</b>	<b>2,830,717</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	14	1,242,225	76,010
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,242,225</b>	<b>76,010</b>
<b>TOTAL LIABILITIES</b>		<b>7,053,166</b>	<b>2,906,727</b>
<b>NET ASSETS</b>		<b>14,928,651</b>	<b>22,433,406</b>
<b>EQUITY</b>			
Share capital	15	3,518,117	2,811,992
Other reserves	16	1,088,631	655,480
Retained earnings	17	10,321,903	18,965,934
<b>TOTAL EQUITY</b>		<b>14,928,651</b>	<b>22,433,406</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>2010</b>	<b>Contributed equity \$</b>	<b>Reserves \$</b>	<b>Retained earnings \$</b>	<b>Total Equity \$</b>
<b>Consolidated</b>				
Balance as at 1 July 2009	1,951,571	438,727	4,151,839	6,542,137
Profit for the period	-	-	14,814,095	14,814,095
Total comprehensive income for the year	-	-	14,814,095	14,814,095
<b>Transactions with owners in their capacity as owners:</b>				
Proceeds from share issue/conversion of special rights	860,421	-	-	860,421
Buy-back of special rights	-	(437)	-	(437)
Share based payments	-	217,190	-	217,190
Dividends paid	-	-	-	-
<b>Total transactions with owners in their capacity as owners</b>	<b>860,421</b>	<b>216,753</b>	<b>-</b>	<b>1,077,174</b>
<b>Balance as at 30 June 2010</b>	<b>2,811,992</b>	<b>655,480</b>	<b>18,965,934</b>	<b>22,433,406</b>
<b>2011</b>	<b>Contributed equity \$</b>	<b>Reserves \$</b>	<b>Retained earnings \$</b>	<b>Total Equity \$</b>
<b>Consolidated</b>				
Balance as at 1 July 2010	2,811,992	655,480	18,965,934	22,433,406
Profit for the period	-	-	15,534,351	15,534,351
Total comprehensive income for the year	-	-	15,534,351	15,534,351
<b>Transactions with owners in their capacity as owners:</b>				
Proceeds from share issue/conversion of special rights	706,125	-	-	706,125
Buy-back of special rights	-	-	-	-
Share based payments	-	433,151	-	433,151
Dividends paid	-	-	(24,178,382)	(24,178,382)
<b>Total transactions with owners in their capacity as owners</b>	<b>706,125</b>	<b>433,151</b>	<b>(24,178,382)</b>	<b>(23,039,106)</b>
<b>Balance as at 30 June 2011</b>	<b>3,518,117</b>	<b>1,088,631</b>	<b>10,321,903</b>	<b>14,928,651</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011 \$	2010 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers		47,731,368	16,632,400
Payments to suppliers and employees		(21,560,219)	(7,887,460)
Interest received		778,202	300,461
Income tax paid net of tax contributions made by subsidiary		(3,654,105)	(514,358)
<b>Net cash provided by operating activities</b>	18(b)	<u>23,295,246</u>	<u>8,531,043</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payment for plant and equipment		(99,923)	(60,395)
Payment for trademarks and licenses		-	(500)
Proceeds from plant and equipment		2,750	-
<b>Net cash used in investing activities</b>		<u>(97,173)</u>	<u>(60,895)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from share issue/conversion of special rights		706,125	860,421
Buy-back of shares and special rights, inclusive of transaction costs		-	(437)
Dividends paid		(24,178,382)	-
<b>Net cash provided by/(used in) in financing activities</b>		<u>(23,472,257)</u>	<u>859,984</u>
<b>Net increase/(decrease) in cash held</b>		(274,184)	9,330,132
Cash at beginning of financial year		<u>14,174,214</u>	<u>4,844,082</u>
<b>Cash and cash equivalents at end of the year</b>	18(a)	<u>13,900,030</u>	<u>14,174,214</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 1: BASIS OF PREPARATION**

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 (Cth).

The financial report includes financial statements for K2 Asset Management Holdings Ltd and K2 Asset Management Ltd as a consolidated entity. K2 Asset Management Holdings Ltd is a company limited by shares, incorporated and domiciled in Australia.

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

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**

*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.

**(b) Principles of consolidation**

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

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

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

The directors have identified that the business acquisition, encompassing the restructure of the K2 Asset Management group that occurred in April 2007, constituted a reverse acquisition as defined under AASB 3: Business Combinations.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 1: BASIS OF PREPARATION (cont'd)**

Accordingly, the consolidated financial statements have been issued under the name of the legal parent entity, K2 Asset Management Holdings Ltd, but reflect a continuation of the statements of K2 Asset Management Ltd that existed prior to the restructure of the group.

**(c) Revenue recognition**

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

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

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

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

**(d) Cash and cash equivalents**

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

**(e) Property and equipment**

Each class of property 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:

<i>Class of fixed asset</i>	<i>Depreciation rates</i>	<i>Depreciation basis</i>
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 over their estimated useful lives, which range from 10 to 15 years.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 1: BASIS OF PREPARATION (cont'd)**

**(g) Impairment**

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.

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

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

*Tax Consolidation*

The parent entity and its controlled entity 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.

**(i) Employee Benefits**

Liabilities arising in respect of wages and salaries, performance bonuses, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal 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.

*Special Rights*

Special rights have been issued to a small number of employees under the historical incentive plan. These rights vest over a four year period with one-third converting on the second, third and fourth anniversaries after grant date. Rights are valued at fair value at grant date in accordance with AASB2 Share Based Payments. Employees have the right to make payment of the exercise price on the above mentioned anniversary if all vesting conditions are met. Rights are only available for conversion if the employee remains with the Company and can be revoked at the board's discretion. After October 2007 no rights have been or will be issued under this plan.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 1: BASIS OF PREPARATION (cont'd)**

The expense related to the issue of special rights in the parent is recognised by the employing entity. Where the exercise price of the special rights is different to the fair value of the special rights at grant date the benefit to the employee is recognised as an expense over the four year vesting period of the special rights.

**(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, 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.

**(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 translated 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 translated 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) Comparatives**

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

**(m) Rounding amounts**

Amounts in the financial statements have been rounded off to the nearest dollar.

**(n) New accounting standards and interpretations**

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**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.

The deferred tax assets include an amount for management rights. On 30 March 2011, the federal government announced the commissioning of the Board of Taxation to review the rules and clarify the scope around the operation of the tax consolidation legislation amendments relating to the rights to future income. The Board of Taxation is continuing its review, however, if amendments are made to the tax consolidation legislation that denies the deduction either retrospectively or prospectively adjustments will be made at that point in time. Refer to Note 6 for further information.

(c) Fair value of special rights granted

The assessed fair value at grant date of the 5,263,600 special rights issued during the year ended 30 June 2008 was \$0.50 per special right. At grant date, 8 October 2007, K2 Asset Management Holdings Ltd was an unlisted public company. The exercise price is \$0.28 per share. At 30 June 2011 1,754,535 special rights remain available for conversion with the last expiry date being October 2011. See Note 15(c) for further details on Special Rights.

**NOTE 3: FINANCIAL RISK MANAGEMENT**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(a) Market Risk**

The key direct risks associated with the consolidated entity are those which impact 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 on 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 an unlikely occurrence.

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.

**(b) Currency Risk**

K2 Asset Management Ltd, in its role as funds manager, manages a mandated account that operates in US dollars. Currency risk exists due to the Company charging these funds fees in US dollars and receiving the fees in Australian dollars. If the Australian dollar fluctuates +/- 5% against the USD then the exchange rate used to convert the mandated fees payable to K2 Asset Management Ltd would also fluctuate to the same extent. Revenue in the current financial year denominated in USD represents less than 5% of total revenue and as such currency risk is not considered significant.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Interest Rate Risk**

At 30 June 2011 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 on 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:				Total carrying amount as per Balance Sheet		Weighted average effective interest rate	
			1 year or less		Non-interest bearing					
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<i>(i) Financial assets</i>										
Cash	8,695,881	8,902,798	5,203,865	5,271,040	284	376	13,900,030	14,174,214	5%	3%
Receivables and other current assets	-	-	-	-	1,774,942	4,893,833	1,774,942	4,893,833	-	-
Total financial assets	8,695,881	8,902,798	5,203,865	5,271,040	1,775,226	4,894,209	15,674,972	19,068,047	-	-
<i>(ii) Financial liabilities</i>										
Trade creditors	-	-	-	-	73,937	89,758	73,937	89,758	-	-
Other creditors	-	-	-	-	1,222,385	2,155,576	1,222,385	2,155,576	-	-
Total financial liabilities	-	-	-	-	1,296,322	2,245,334	1,296,322	2,245,334	-	-

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(d) Credit risk exposures**

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

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 Balance Sheet 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 it manages. The Company is the manager of each of these funds and exercises its control to manage this risk by ensuring fees are paid by each fund on a timely basis.

**(e) 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.

**(f) Fair values**

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011	2010
		\$	\$
<b>NOTE 4: REVENUE</b>			
<b>Revenues from continuing operations</b>			
- rendering of services		40,720,420	17,245,306
- interest		774,000	344,658
		41,494,420	17,589,964
Interest from:			
- other persons		774,000	344,658
		774,000	344,658
<b>NOTE 5: PROFIT FROM CONTINUING OPERATIONS</b>			
<i>Profit from continuing operations before income tax has been determined after the following specific expenses:</i>			
<i>Employee benefits</i>			
- Short term benefits		15,599,414	6,102,799
- Long term benefits		1,166,215	-
- Employee rights expense		433,151	217,190
		17,198,780	6,319,989
<i>Depreciation of non-current assets</i>			
- Computer and office equipment		111,888	124,756
- Leasehold improvements		10,462	8,677
Depreciation of plant and equipment		122,350	133,433
<i>Amortisation of non-current assets</i>			
- Trademarks and licenses		200	161
Amortisation of non-current assets		200	161
<i>Marketing expenses</i>			
- Advertising		340,604	648,858
- Travel expense		196,977	191,932
- Printing and stationery		49,224	89,244
		586,805	930,034

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011	2010
		\$	\$
<b>NOTE 5: PROFIT FROM CONTINUING OPERATIONS (cont'd)</b>			
<i>Occupancy expenses</i>			
- Rental and occupancy		582,620	516,293
- Repairs and maintenance		23,373	43,947
- Loss on disposal of assets		65	-
		606,058	560,240
<b>NOTE 6: INCOME TAX</b>			
<b>(a) The components of tax expense/(benefit):</b>			
Current tax		7,345,677	25,801
Deferred tax		(501,770)	(5,768,272)
(Over)/under provision in prior year		(22,741)	10,713
<i>Total Income tax expense/(benefit)</i>		6,821,166	(5,731,758)
Deferred income tax			
(Revenue)/expense included in income tax expense comprises:			
Decrease/(increase) in deferred tax assets		808,814	(6,370,874)
(Decrease)/increase in deferred tax liabilities		(1,310,584)	602,602
		(501,770)	(5,768,272)
<b>(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:</b>			
Prima facie income tax payable on profit before income tax at 30% (2010: 30%)		6,706,655	2,724,701
<i>Add:</i>			
Tax effect of:			
- non deductible entertainment		7,307	8,994
- share based payments		129,945	65,157
		6,843,907	2,798,852
<i>Less:</i>			
Tax effect of			
- management rights brought to account		-	8,541,323
- over/(under) provision in prior year		22,741	(10,713)
Income tax expense/(benefit) attributable to profit		6,821,166	(5,731,758)

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011	2010
		\$	\$
<b>NOTE 6: INCOME TAX (cont'd)</b>			
Current tax (receivable)/payable			
Balance at the beginning of the year		(476,740)	1,104
Income tax		7,345,677	25,801
Tax payments		(2,343,521)	(514,358)
Payment of deferred tax liability		(1,310,584)	-
(Over)/under provision in prior year		(22,741)	10,713
Balance at the end of the year		3,192,091	(476,740)
 <i>Deferred tax assets:</i>			
The balance comprises:			
- Management rights		5,060,878	5,978,926
- Accruals		574,356	411,093
- Employee benefits		213,780	198,418
- Capital raising costs		54,790	124,181
- Other		65	65
		5,903,869	6,712,683
 <i>Deferred tax liabilities</i>			
The balance comprises temporary differences attributable to:			
Accrued performance and management fees		-	1,310,584
Balance after set off of deferred tax assets/(liabilities)		5,903,869	5,402,099

**Income Tax Estimates**

On 3 June 2010, the income tax consolidation legislation was amended. Under the revised legislation, the consolidated entity has the opportunity to claim a tax deduction in instances where a subsidiary company is acquired and its assets include rights to future income. These amendments apply retrospectively to groups that consolidated for tax purposes on or after 1 July 2002. The income tax deduction can be claimed over the lesser of the remaining period of the future right or 10 years.

K2 Asset Management Holdings Ltd and its wholly owned subsidiaries formed a tax consolidated group on 27 April 2007. On 20 July 2007 K2 Asset Management Ltd joined the tax consolidated group. Accordingly, management rights held as 20 July 2007 by K2 Asset Management Ltd are rights to which the amended legislation can be applied.

A valuation of the rights held by K2 Asset Management Ltd as at 20 July 2007 has resulted in a total tax benefit to K2 Asset Management Holdings Ltd of \$8,541,323. As at 30 June 2011 this tax benefit has resulted in income tax receivable of nil (2010: \$2,562,397), a carried forward deferred tax asset of \$5,060,878 (2010: \$5,978,926) and current year tax benefit of nil (2010: \$8,541,323).

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

Notes	Consolidated Entity	
	2011	2010
	\$	\$
<b>NOTE 6: INCOME TAX (cont'd)</b>		
On 30 March 2011, the federal government announced the commissioning of the Board of Taxation to review the rules and clarify the scope around the operation of the tax consolidation legislation amendments relating to the rights to future income. The Board of Taxation is continuing its review, however, if amendments are made to the tax consolidation legislation that denies the deduction either retrospectively or prospectively adjustments will be made at that point in time.		
<b>NOTE 7: DIVIDENDS ON ORDINARY SHARES</b>		
<b>(a) Dividends paid or declared</b>		
Dividends paid 8 September 2010 at 4.5 cents per share (2010: nil) fully franked at the Australian tax rate of 30%	10,285,627	-
Dividends paid 23 February 2011 at 6.0 cents per share (2010: nil) 80% franked at the Australian tax rate of 30%	13,892,755	-
	24,178,382	-
<b>(b) Dividends declared after year end</b>		
Proposed dividends not recognised at year end at 1.3 cents per share (2010: 4.5 cents) 80% franked (2010: 100% franked) at the Australia tax rate of 30%	3,010,097	10,285,627
<b>(c) Franking credit balance</b>		
Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:	2,787,938	1,212,218
<b>NOTE 8: CASH</b>		
Cash on hand	284	376
Cash at bank	8,695,881	8,902,798
Cash on deposit	5,203,865	5,271,040
	13,900,030	14,174,214
<b>NOTE 9: RECEIVABLES</b>		
Trade receivables	1,686,982	4,805,474
Other receivables	87,960	88,359
	1,774,942	4,893,833
<b>NOTE 10: OTHER CURRENT ASSETS</b>		
Prepayments	203,613	168,442

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

Notes	Consolidated Entity	
	2011	2010
	\$	\$
<b>NOTE 11: PLANT AND EQUIPMENT</b>		
Leasehold improvements		
At cost	84,330	52,052
Less accumulated depreciation	(25,912)	(15,450)
	58,418	36,602
Computer and office equipment		
At cost	718,393	721,758
Less accumulated depreciation	(578,576)	(534,883)
	139,817	186,875
	198,235	223,477

**(a) Movements in carrying amounts**

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

	Consolidated Entity \$	Consolidated Entity \$	Consolidated Entity \$
	Leasehold improvements	Computer and office equipment	Total
<b>2011</b>			
Balance at the beginning of the year	36,602	186,875	223,477
Additions	32,278	67,645	99,923
Disposals	-	(2,815)	(2,815)
Depreciation expense	(10,462)	(111,888)	(122,350)
Carrying amount at 30 June 2011	58,418	139,817	198,235
<b>2010</b>			
Balance at the beginning of the year	45,279	251,236	296,515
Additions	-	60,395	60,395
Disposals	-	-	-
Depreciation expense	(8,677)	(124,756)	(133,433)
Carrying amount at 30 June 2010	36,602	186,875	223,477

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	Consolidated Entity	
		2011	2010
		\$	\$
<b>NOTE 12: INTANGIBLE ASSETS</b>			
Trademarks and licenses at cost		2,006	2,006
Less accumulated amortisation		(878)	(678)
		1,128	1,328
		1,128	1,328
<b>NOTE 13: PAYABLES</b>			
Unsecured liabilities			
Trade creditors		73,937	89,758
Sundry creditors and accruals		1,222,385	2,155,576
		1,296,322	2,245,334
		1,296,322	2,245,334
<b>NOTE 14: PROVISIONS</b>			
CURRENT			
Employee benefits	(a)	1,322,528	585,383
		1,322,528	585,383
		1,322,528	585,383
NON-CURRENT			
Employee benefits	(a)	1,242,225	76,010
		1,242,225	76,010
		1,242,225	76,010
<b>(a) Aggregate employee benefits liability</b>		2,564,753	661,393

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Entity**  
**2011**                      **2010**  
**\$**                              **\$**

**NOTE 15: CONTRIBUTED EQUITY**

**(a) Issued and paid up capital**

Ordinary shares fully paid	3,518,117	2,811,992
	3,518,117	2,811,992

**(b) Movements in shares on issue**

	<b>Consolidated Equity</b>		<b>Consolidated Equity</b>	
	<b>2011</b>		<b>2010</b>	
	No of Shares	\$	No of Shares	\$
Beginning of the financial year	16,215,970	2,811,992	11,212,380	1,951,571
Issued during the year				
– Ordinary shares issued from conversion of special rights	2,895,977	649,995	4,924,554	821,275
– Share based payments	80,452	56,130	79,036	39,146
End of the financial year	19,192,399	3,518,117	16,215,970	2,811,992

	<b>Parent Equity</b>		<b>Parent Equity</b>	
	<b>2011</b>		<b>2010</b>	
	No of Shares	\$	No of Shares	\$
Beginning of the financial year	228,569,483	114,222,908	223,565,893	113,362,487
Issued during the year				
– Ordinary shares issued from conversion of special rights	2,895,977	649,995	4,924,554	821,275
– Share based payments	80,452	56,130	79,036	39,146
End of the financial year	231,545,912	114,929,033	228,569,483	114,222,908

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

**(c) Share Options/ Special Rights**

Historical incentive scheme

The Company has had in place a long-term incentive scheme since 2000 in which a small number of employees were issued special rights to buy shares in the Company at a pre-determined market price. These rights vest over a four year period and are only available for conversion if the employee remains with the Company. Special rights can be revoked at the directors' discretion with no further rights granted under this scheme after October 2007 when 5,263,600 rights were issued.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Entity**  
**2011**                      **2010**  
**\$**                              **\$**

**(c) Share Options/Special Rights (cont'd)**

During the 2011 financial year 2,895,977 (2010: 4,924,554) special rights were converted into ordinary shares under the historical incentive scheme. The special rights were converted at an average price of \$0.22 (2010: \$0.17). During the year nil special rights (2010: 43,732) expired due to employees not converting their special rights. As at 30 June 2011 there remains 1,754,535 (2010: 4,650,512) special rights that have been granted under the historical employee incentive scheme that are yet to be converted into the equivalent ordinary shares in K2 Asset Management Holdings Ltd. Of the 1,754,535 remaining, all were issued in October 2007 based on the terms described in Note 2 (c) and are due to expire in October 2011. See Note 21 for details of Rights converted by directors and executives.

**Long-term incentives**

A long-term incentive is provided via a performance-based deferred cash bonus which represents a portion of the short-term incentive that is deferred over three tranches payable over two years. Deferred bonus payments are only paid if the employee remains at the Company and continues to meet specified key performance indicators. The deferred bonus can be revoked at the board's discretion. There is currently \$1,708,820 (2010: nil) outstanding in deferred bonuses.

Long-term incentives determined in previous financial years allow for a limited number of staff to use the after tax proceeds of bonuses to purchase equity at market value in K2 Asset Management Holdings Ltd. There is currently \$143,333 (2010: \$253,333) outstanding of which \$110,000 was paid in the 2011 financial year (2010: \$76,667).

**NOTE 16: RESERVES**

Other Reserves	17	1,088,631	655,480
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**(a) Other Reserves**

*(i) Nature and purpose of reserve*

Other reserves include the contributions made by employees for "special rights" allocated to them as described in Note 15(c) and records the value of equity benefit provided to employees and directors as part of their remuneration.

*(ii) Movement in reserve*

Balance at the beginning of the year		655,480	438,727
Movement during the year			
- employee rights expense		433,151	217,190
- buy-back of special rights		-	(437)
Balance at the end of the year		1,088,631	655,480

**NOTE 17: RETAINED PROFITS**

Retained profits at the beginning of the financial year		18,965,934	4,151,839
Net profit attributable to members of the entity		15,534,351	14,814,095
Dividends paid		(24,178,382)	-
Retained profits at the end of the financial year		10,321,903	18,965,934

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>Consolidated Entity</b>	
<b>2011</b>	<b>2010</b>
<b>\$</b>	<b>\$</b>

**NOTE 18: CASH FLOW INFORMATION**

**(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 in the statement of financial position as follows:

Cash on hand	284	376
Cash at bank	8,695,881	8,902,798
At call deposits with financial institutions	5,203,865	5,271,040
	13,900,030	14,174,214
	13,900,030	14,174,214

**(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax**

Profit from ordinary activities after income tax	15,534,351	14,814,095
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**Non-cash flows in profit from ordinary activities**

Amortisation	200	161
Depreciation	122,350	133,433
Net (profit)/loss on disposal of property, plant and equipment	65	-
Employee rights expense	433,151	217,190

**Changes in assets and liabilities**

(Increase)/decrease in receivables	3,118,891	(2,237,871)
(Increase)/decrease in other assets	(35,171)	(26,153)
Increase/(decrease) in payables	(949,012)	1,708,914
Increase/(decrease) in income tax payable	3,668,831	(477,844)
(Increase)/decrease in deferred taxes	(501,770)	(5,768,272)
Increase/(decrease) in provisions	1,903,360	167,390
Net cash flow from operating activities	23,295,246	8,531,043
	23,295,246	8,531,043

**c) Restriction over cash on deposit**

The consolidated entity has a term deposit of \$203,865 (2010: \$196,024) as a guarantee over the office rental at Level 32, 101 Collins Street, Melbourne.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

Consolidated Entity	
2011	2010
\$	\$

**NOTE 19: COMMITMENTS AND CONTINGENCIES**

Lease expenditure commitments

**(a) Operating leases (non-cancellable):**

(i) The property lease for consolidated entity's office at Level 32, 101 Collins Street is a non-cancellable lease with a six-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require minimum lease payments to be increased by 4% (plus GST) per annum. An option exists to renew the lease at the end of the six-year term for an additional term of four-years.

(ii) Minimum lease payments

– Not later than one year	502,158	482,159
– Later than one year and not later than five years	959,386	1,353,819
– Later than five years	-	-
Aggregate lease expenditure contracted for at reporting date	1,461,544	1,835,978

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 20: EARNINGS PER SHARE**

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	<b>2011</b>	<b>2010</b>
Net profit	15,534,351	14,814,095
Adjustments:	-	-
Earnings used in calculating basic and diluted earnings per share	15,534,351	14,814,095
Weighted average number of ordinary shares used in calculating basic earnings per share	230,710,797	227,058,571
<b>Effect of dilutive securities:</b>		
Employee special rights and share based payments	2,567,608	6,150,886
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	233,278,405	233,209,457

**NOTE 21: DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS**

**(a) Special rights: Granted and vested during the year**

No special rights were granted to directors or executives during the year.

**(b) Shares issued on exercise of special rights**

2,895,977 (2010: 4,924,554) ordinary shares in K2 Asset Management Holdings were issued on exercise of special rights during the 2011 financial year of which 155,957 (2010: 1,081,018) were issued to Hollie Wight. The criteria for conversion of rights is described in Note 21(c).

**(c) Details concerning share-based compensation of directors and executives**

Special rights have been issued under the historical incentive plan. These rights vest over a four year period with one-third converting on the second, third and fourth anniversaries of the grant date. Rights are only available for conversion if the employee or director remains with the Company and can be revoked at the Board's discretion.

After October 2007 no further rights have been or will be issued under this plan.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 21: DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS (cont'd)**

**(d) Number of special rights/options held by key management personnel (consolidated):**

Special rights held by key management personnel at 30 June 2011 are as follows:

- Hollie Wight: 155,957 Special Rights (311,914 at 30 June 2010); and
- Ruth McClelland: 155,957 Special Rights (311,914 at 30 June 2010).

The above special rights have conversion dates on their respective second, third and fourth anniversaries with the final expiry being October 2011.

Directors Campbell Neal, Mark Newman and Rob Hand do not hold any special rights. There are currently no options on issue in the Company.

**(e) Number of shares held by key management personnel or related entities:**

	<i>Balance 01/07/10</i>	<i>Received as Remuneration</i>	<i>Rights Exercised</i>	<i>Net change Other*</i>	<i>Balance 30/06/11</i>
<b>Directors</b>					
Campbell Neal	86,096,272	-	-	-	86,096,272
Mark Newman	64,458,587	-	-	(3,000,000)	61,458,587
Robert Hand	16,866,976	-	-	(500,000)	16,366,976
Hollie Wight	5,012,522	-	155,957	-	5,168,479
<b>Executives</b>					
Ruth McClelland	100,000	-	155,957	-	255,957
<b>Total</b>	172,534,357	-	311,914	(3,500,000)	169,346,271

\* Net change other refers to shares bought or sold during the year.

**NOTE 22: LOANS TO KEY MANAGEMENT PERSONNEL (CONSOLIDATED)**

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

**NOTE 23: AUDITOR'S REMUNERATION**

	Notes	Consolidated Entity	
		2011	2010
		\$	\$
Amounts received or due and receivable by Pitcher Partners for:			
An audit or review of the financial report of the entity and any other entity in the consolidated entity		133,216	117,085
Other non-audit services			
- Employee share plan review		1,650	30,770
- Tax consulting services		34,205	-
		169,071	147,855

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 24: RELATED PARTY DISCLOSURES**

(a) The consolidated financial statements include the financial statements of K2 Asset Management Holdings Ltd and its controlled entity listed below:

	Country of Incorporation	Percentage Owned	
		2011	2010
Parent Entity:			
K2 Asset Management Holdings Ltd	Australia	-	-
Subsidiaries:			
K2 Asset Management Ltd	Australia	100%	100%

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

- Wholly-owned group transactions were as follows:
  - Dividends paid by K2 Asset Management Ltd to parent entity totalling \$21,278,314 (2010: nil).
  - Loan provided by parent to K2 Asset Management Ltd in respect of tax related balances, total balance at 30 June 2011 of \$5,977,321 (2010: \$3,561,938).
  - Loan provided by K2 Asset Management Ltd during the year, total balance at 30 June 2011 of nil (2010: \$242,230). This relates to operational expenditure during the financial year.
  - 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 is disclosed in the Directors' Report.
  - K2 Asset Management Ltd provides investment management services to related party unit trusts – the K2 Asian Absolute Return Fund, K2 Australian Absolute Return Fund, K2 Select International Absolute Return Fund, K2 Global High Alpha Fund and private mandates. K2 Asset Management Ltd is entitled to receive payments from funds where K2 Asset Management Ltd acts as investment manager. A monthly management fee, a monthly administration fee and in some instances a performance fee based upon the relevant fund's investment return over and above a specified benchmark is received by K2 Asset Management Ltd. The total related party revenue for the year ended 30 June 2011 of \$39,484,819 (2010: \$17,190,412) is included in the Statement of Comprehensive Income and detailed in Note 4 of the Financial Report.
- During the year Campbell Neal resigned as a director of the Geelong Football Club effective 17 January 2011. During the year nil payments (2010: \$13,314) were made by K2 Asset Management Ltd for corporate entertainment during Geelong Football Club home games at Skilled Stadium in Geelong, Victoria.
- No key management personnel or their related entities were party to any transactions with the consolidated entity during the year except for those disclosed in this report.
- There were no transactions with other related parties during the year.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>Parent Entity</b>	
<b>2011</b>	<b>2010</b>
<b>\$</b>	<b>\$</b>

**NOTE 25: PARENT ENTITY DETAILS**

Summarised presentation of the parent entity, K2 Asset Management Holdings Ltd, financial statements:

**(a) Summarised statement of financial position**

**Assets**

Current assets	6,197,936	930,732
Non-current assets	118,664,639	122,756,500
<b>Total assets</b>	<b>124,862,575</b>	<b>123,687,232</b>

**Liabilities**

Current liabilities	3,202,444	242,231
<b>Total liabilities</b>	<b>3,202,444</b>	<b>242,231</b>

**Net assets**

	<b>121,660,131</b>	<b>123,445,001</b>
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**EQUITY**

Share capital	114,929,034	114,222,908
Retained earnings	5,653,605	8,577,751

**Reserves**

Employee share plan reserve	1,077,492	644,342
<b>Total equity</b>	<b>121,660,131</b>	<b>123,445,001</b>

**(b) Summarised statement of comprehensive income**

Profit for the year	21,254,236	8,550,965
<b>Total comprehensive income for the year</b>	<b>21,254,236</b>	<b>8,550,965</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 26: SUBSEQUENT EVENTS**

There has been no matter or circumstance, which has arisen since 30 June 2011 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2011, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2011, of the consolidated entity

**NOTE 27: SEGMENT INFORMATION**

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

**NOTE 28: ECONOMIC ENTITY DETAILS**

The registered office of the company is:  
K2 Asset Management Holdings Ltd  
Level 32, 101 Collins Street  
Melbourne VIC 3000  
Phone: 03 9691 6111

**NOTE 29: REGISTER OF SECURITIES**

The register of securities is kept at:  
Boardroom Pty Limited (formerly Registries Limited)  
Level 7, 207 Kent Street  
Sydney NSW 2000

Phone: 1300 737 760

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

**DIRECTOR'S DECLARATION**

The directors declare that the financial statements and notes set out on pages 20 to 46 in accordance with the *Corporations Act 2001* (Cth):

- (a) comply with Accounting Standards and the *Corporations Regulations 2001* (Cth), 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 2011 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; and
- (c) as stated in Note 1, the 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* for the financial year ending 30 June 2011.

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



**Campbell Neal  
Director**



**Hollie Wight  
Director**

Melbourne  
9 August 2011

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

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

We have audited the accompanying financial report of K2 Asset Management Holdings Ltd and controlled entity, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the financial report 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 entity'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.

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of K2 Asset Management Holdings Ltd and controlled entity 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 2011 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 10 of the directors' report for the year ended 30 June 2011. 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.

*Auditor's Opinion*

In our opinion the remuneration report of K2 Asset Management Holdings Ltd and controlled entity for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



B J BRITTEN

Partner

9 August 2011



PITCHER PARTNERS

Melbourne