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NAOS EMERGING OPPORTUNITIES  
COMPANY LIMITED

Annual Report 2017

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### 2017 Annual General Meeting

AGM to be held at 11.00am (AEDT) on Friday 10 November 2017 at Taylor Collison, Level 10, 167 Macquarie Street, Sydney NSW 2000

### Please join us for our bi-annual Investor Presentations

Our investment team will provide an update on our Listed Investment Companies (LICs): NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Absolute Opportunities Company Limited (ASX: NAC). The discussion will include an insight into our investment philosophy and process as well as highlighting a selection of stocks held within the LICs. Refreshments will be provided after the presentation at 12.00pm.

### Perth Monday 16 October 2017

11.00am-12.00pm  
Novotel Perth Langley  
Langley Room  
221 Adelaide Terrace  
Perth WA 6000

### Adelaide Wednesday 18 October 2017

11.00am-12.00pm  
Crowne Plaza Adelaide  
Hindmarsh 3  
16 Hindmarsh Square  
Adelaide SA 5000

### Brisbane Friday 20 October 2017

11.00am-12.00pm  
Customs House  
River Room  
399 Queen Street  
Brisbane QLD 4000

### Melbourne Tuesday 24 October 2017

11.00am-12.00pm  
The Westin  
Executive Room II  
205 Collins Street  
Melbourne VIC 3000

### Sydney Wednesday 25 October 2017

11.00am-12.00pm  
Museum of Sydney  
Warrane Theatre  
Cnr Phillip and Bridge Streets  
Sydney NSW 2000

### Canberra Thursday 26 October 2017

11.00am-12.00pm  
Hyatt Hotel  
Centenary 2  
120 Commonwealth Avenue  
Canberra ACT 2600

NAOS Emerging Opportunities Company Limited is a listed investment company and its shares are listed on the Australian Securities Exchange (ASX: NCC). We seek to protect investor capital whilst providing a stream of sustainable fully franked dividends and long term capital growth above the benchmark index, being the S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI).

**\$4.6m**

PROFIT FOR THE YEAR

**7c ▲**

FY17 FULLY FRANKED DIVIDEND (INCREASE 3.7%)

**1,679 ▲**

SHAREHOLDERS (INCREASE 76%)

**34.37%**

TOTAL SHAREHOLDER RETURN (SHARE PRICE PLUS DIVIDEND)

**KEY METRICS AS AT 30 JUNE 2017**

Pre-tax Net Tangible Assets	\$1.31
Post-tax Net Tangible Assets	\$1.24
Historical Fully Franked Dividend Yield	5.26%
Fully Franked FY17 Dividend	7 cents
Share Price	\$1.33
Shares on Issue	59,173,393
Directors' Shareholding	3,829,879
Market Capitalisation	\$78.7 million

**INVESTMENT PORTFOLIO PERFORMANCE AS AT 30 JUNE 2017**

	1 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC INVESTMENT PORTFOLIO PERFORMANCE*	+0.44%	+12.39%	+18.41%	+12.46%	+16.96%	+18.26%	+107.06%
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX (XSOAI)	+1.99%	+7.01%	+10.64%	+7.13%	+8.60%	+3.39%	+15.57%
OUTPERFORMANCE RELATIVE TO BENCHMARK	-1.55%	+5.38%	+7.77%	+5.33%	+8.36%	+14.87%	+91.49%

\*Performance shown is post all operating expenses but before fees and taxes. Inception date is 26 February 2013.



**SEBASTIAN EVANS**

**Director**

Sebastian Evans has been a Director of the Company since inception (6 November 2012). Sebastian Evans is also a Director of NAOS Absolute Opportunities Company Limited (ASX: NAC) and is Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager. Sebastian has been the CIO across both investment strategies since their respective inception dates.

Sebastian holds a Masters of Applied Finance majoring in Investment Management (MAppFin) as well as a Bachelor's Degree in Commerce, majoring in Finance and International Business, a Graduate Diploma in Management from the Australian Graduate School of Management (AGSM) and a Diploma in Financial Services.

**WARWICK EVANS**

**Director**

Warwick Evans has been a Director of the Company since inception (6 November 2012).

Warwick Evans has over 35 years of equity markets experience, most notably as Managing Director for Macquarie Equities (Globally) from 1991-2001 as well as being an Executive Director for Macquarie Group. He is also a Director of NAOS Absolute Opportunities Company Limited.

He was the founding Chairman and CEO of the Newcastle Stock Exchange (NSX), and was also the Chairman of the Australian Stockbrokers Association. Prior to these positions he was an Executive Director at County NatWest.

Warwick holds a Bachelor's degree in Commerce majoring in Economics from the University of New South Wales.

**DAVID RICKARDS**

**Independent Chairman**

David has been a Director and Chairman of the Company from 20 November 2012.

David has over 25 years of equity market experience, most recently as an Executive Director at Macquarie Group where David was head of equities research globally as well as equity strategy since 1989 until he retired in mid-2013. David was also a Consultant for the financial analysis firm Barra International.

He is a former Director and Treasurer at Bush Heritage Australia, a Director of NAOS Absolute Opportunities Company Limited and a Consultant at Barra International.

David holds a Masters of Business Administration majoring in Accounting and Finance from the University of Queensland as well as two Bachelor degrees, one in Engineering (Civil and Structural) from the University of Sydney, and a Bachelor's degree in Science (Pure Mathematics and Geology).

Dear Fellow Shareholders,

Welcome to the 2017 Annual Report for the NAOS Emerging Opportunities Company Limited.

For the financial year ended 30 June 2017, the Company recorded an after-tax profit of \$4.59 million. The Company also paid a record 7 cents fully franked dividends over this period, representing a 5.26% fully franked dividend yield.



I am pleased to report that the dividend paid in FY17 marks the fifth year of consecutive dividend increases. The Board is mindful of providing our fellow shareholders with a sustainable and increasing stream of dividends franked to the maximum extent possible.

The Company prides itself in offering what we believe is the only Listed Investment Company ('LIC') that provides a pure, concentrated, long-term exposure to small and micro-cap industrial businesses regardless of their size or liquidity profile. This concentrated approach is reflected by the 12 positions held as at 30 June, with one new core position entering the portfolio during the financial year.

The performance of the investment portfolio also flowed through to a significant increase in the total shareholder return (TSR) over the year. The TSR for the year was +34.37% which includes dividends paid and the share price movement over that period, but does not account for the value of franking credits.

The NTA of the Company increased by \$17.77 million over the financial year, both through performance as well as a successfully completed Share Purchase Plan (SPP) and placement. The funds raised from the SPP and placement in May 2017 have been utilised to continue with the Company's proven investment strategy of investing in undervalued emerging companies with a long-term value horizon. It is important to note that these capital management initiatives were completed at a price above the prevailing Net Tangible Assets per share, which eliminated any

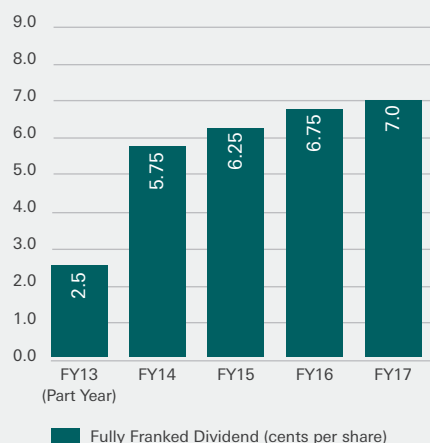
potential dilution for existing shareholders. In addition, the increase in capital will deliver benefits to all NCC shareholders through improved liquidity via a wider shareholder base and with an increased market profile.

As mentioned in the 2016 Annual Report the Company is always looking at ways to improve the quality and transparency of our investment communications. During 2017 we launched new initiatives to increase our investor communications. The success of these initiatives is reflected in the number of new shareholders who joined the share register. At the end of the financial year the Company finished with 1,679 shareholders on the register which was a significant increase on the 953 shareholders at the end of the 2016 financial year.

As always, the Board is committed to managing the capital base in the most appropriate manner; one that provides the Investment Manager with the framework necessary to maximise potential performance for our fellow shareholders as well as providing a stable stream of growing dividends. With this in mind, the Board remains committed to limiting the size of the Company to between \$125 million and \$150 million.

All Directors increased their holdings throughout the financial year, taking advantage of both the SPP and the dividend reinvestment plan, and now hold a cumulative 3.82 million shares, continuing to align our interests with those of shareholders.

Fully Franked Dividends (cents per share)



On behalf of the Board of Directors I would like to thank all the staff of the Investment Manager for their continued efforts and dedication throughout the year.

The Board would also like to thank all our shareholders for their continued support and we warmly welcome all new shareholders who joined the Company during the 2017 financial year.

David Rickards  
Chairman  
24 August 2017



Dear Fellow Shareholders,

It is a pleasure to report to you on the performance of the portfolio for the financial year 2017 (FY2017) for the NAOS Emerging Opportunities Company Limited ('NCC').

The end of financial year 2017 brought with it the end of the fifth financial year for the NCC investment portfolio (FY2013 was approximately four months due to the IPO in February 2013).

“What we believe continues to differentiate NCC from most, if not all, of our peers is our belief in the power of conviction investing.”

The portfolio produced a return of +12.39% post all operating expenses and pre-applicable fees and taxes, which compared favourably to the benchmark Small Ordinaries Accumulation Index ('XSOAI') which returned +7.01%. This brings the performance of the portfolio to +107.06% since the Company's inception.

It was pleasing that the NCC track record of always generating a positive financial year return continued in FY2017, highlighting our focus on generating strong, sustainable returns for our shareholders whilst protecting our shareholders' capital. Myself and the rest of the NAOS investment team believe FY2017 was a solid year, although one which had the potential to be improved on. I will touch on some of the lessons that we as a team have learnt throughout the year in the latter part of this letter.

Many of our longstanding shareholders and some of our more recent shareholders would have an understanding that the NAOS investment philosophy is built around focusing on long-term returns, and continuing to hold positions within the portfolio as long as they continue to meet our investment criteria and are run by a proven and aligned management team. What we believe continues to differentiate NCC from most, if not all, of our peers is our belief in the power of conviction investing, which is shown by the portfolio holding 12 positions at the end of the financial year.

#### STOCK SPECIFIC DEVELOPMENTS

From a contribution perspective the highest contributing stock to the portfolio over FY2017 was CML Group (ASX: CGR). This is the third year that CGR has been in the NCC investment portfolio and pleasingly it has been the strongest stock of the year both operationally and from a total return perspective. As with many emerging companies there have been a number of growing pains over the past three years; however 2017 was a year of focusing on operational efficiencies, lowering funding costs, and improving a service that meets the customers' needs. CGR delivered on these objectives and was able to upgrade earnings guidance to an NPAT figure of in excess of \$3.0 million, compared to \$1.2 million in the previous period. The funding agreement with ANZ bank will significantly reduce the interest expense and should allow the business to continue to grow the NPAT line well into FY2019.

BSA Limited (ASX: BSA) is another position we have held for over three financial years in the NCC investment portfolio. It was pleasing to see BSA finish as the second highest contributing stock for FY2017, it has also been the highest contributing stock for the portfolio since the NCC IPO in February 2013. Leading into FY2017 the focus for the BSA management team was to cement the NBN contracts and manage their workforce to handle the immense workload ahead of them, in addition to settling the two legacy issues relating to the New Royal Adelaide Hospital ('NRAH') development, and payroll tax liability issues with the Office of State Revenue (OSR). Pleasingly the majority of the NRAH liabilities have been resolved with

# +12.39%

FY17 PORTFOLIO RETURN

a favourable outcome for BSA, and although the OSR issue remains outstanding, BSA has allowed for this as a provision within its balance sheet. With regard to NBN, it has been clear to many observers that the ramp up through FY2017 and into FY2018 from a connections standpoint has been extremely significant. There has been little commentary from BSA on this work and the margins achieved, apart from in the first half-year results. We expect BSA to be highly focused on meeting and exceeding the NBN requirements and achieving a suitable margin. Without a doubt FY2018 will give excellent colour into this outcome one way or another.

### NEW POSITIONS

Two new positions were added to the NCC portfolio in FY2017, one being a smaller position in BTC Health Limited (formerly known as Biotech Capital Limited) (ASX: BTC), due to its market capitalisation; and the other being a large core position for the portfolio, Big River Industries Limited (ASX: BRI), the 100-year-old building materials and distribution business which listed in the second half of the financial year. BRI is the only Initial Public Offering (IPO) of any significance that has been included within the investment portfolio since the inception of NCC. What set BRI apart from the majority of other IPOs were three key points: 1) there was no vendor sell down; 2) there was a long-standing track record of stable financial performance and management team stability; and 3) the IPO

# +107.06%

PORTFOLIO RETURN SINCE INCEPTION

was not priced for any future growth and arguably below fair value for the current year earnings with balance sheet flexibility. FY2017 results will be important for BRI as they will need to show the market that they can achieve a guidance range and give the management team credibility as a listed entity. FY2018 and FY2019 may well shape up as years of strong earnings growth with the number of new civil and infrastructure projects ramping up to record levels.

### THE IMPORTANCE OF TIMING

Every year since NCC has been listed the investment team continue to learn new ways to improve on our investment philosophy and the implementation of this philosophy. We are far from perfect; nevertheless we strive to keep any permanent capital losses to an absolute minimum. We believe that the top performers will tend to look after themselves if they continue to execute as stated, and if they remain undervalued on a long-term view.

What was most apparent through this year was that timing is everything; it can often make the difference between a 20% p.a. return over three years or a 5% p.a. return over three years. Obtaining a meaningful position at our desired entry price is often a key challenge in the emerging companies space, as even for a nimble fund of our size, the liquidity profile of many stocks is restrictive and it is a critical consideration to generating sustainable performance. Secondly, the timeframe for emerging companies to successfully execute on a strategy often varies, and certainly does not

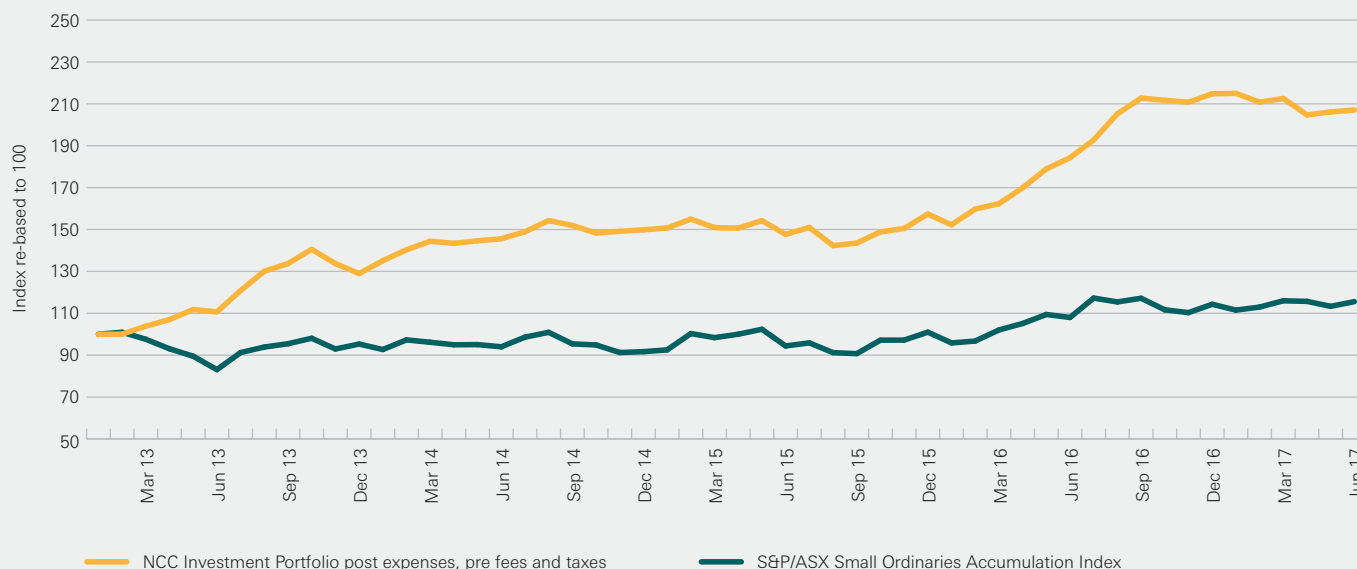
usually coincide with the end of a financial year. As such, returns can be pushed out by 6-18 months at times, and it is only patient, long-term investors who will reap the resultant benefits. Finally, it is key not to underestimate the capital requirements of a business; even if there is no visible need for capital within the short term, industries are always changing and opportunities do arise – so always give yourself flexibility to inject more capital if required.

I would like to thank all our shareholders for their continued support over the past 12 months. The team at NAOS Asset Management continues to grow; we now have ten team members, nine of which are full-time. We continue to reinvest into our business so we can provide the shareholders of NCC an industry leading LIC, that delivers on its investment objectives and is clear and transparent in its communications with current and potential shareholders.

We encourage investor feedback. Please contact the team with any suggestions or comments you may have. Thank you again for your support and I look forward to updating you on the progress of the portfolio at our bi-annual national investor roadshow in October.

Sebastian Evans  
Managing Director/  
Chief Investment Officer  
NAOS Asset Management Limited

### NCC INVESTMENT PORTFOLIO PERFORMANCE SINCE INCEPTION



The investment manager of the NAOS Emerging Opportunities Company is NAOS Asset Management Limited (NAOS). NAOS was established in 2005 and focuses on providing investors with unique product offerings, in asset classes and sub-sectors where they often lack the time, resources or expertise to research and invest themselves. NAOS adopts a high conviction, long-term, value driven approach to investing.

Our investment team look to realise value over the long term by sourcing, selecting and combining investment opportunities that present the greatest opportunity for shareholders to realise positive absolute returns in the form of capital growth and income generation over the long term.

All NAOS investment products have an absolute return focus. As such, the investment team place a primary focus on mitigating the permanent loss of capital and assessing each investment opportunity on the basis of its potential for long-term value add in the portfolio.

### OUR INVESTMENT BELIEFS

At NAOS, we believe success is achieving returns for our shareholders, over a three to five year period, better than and without correlation to the broader market with less risk of permanent capital loss.

We see value in the sharing of ideas with our investment community via open and transparent communication with our shareholders to ensure investors are able to make informed decisions.



### VALUE FOCUSED

We believe in taking advantage of inefficient markets, the perceived risk associated with low liquidity (or difficulty buying or selling large positions) combined with investor short termism, presents an opportunity for the contrarian investor to act based purely on the long-term value proposition where the majority may lose patience and move on.



### QUALITY OVER QUANTITY

Excessive diversification, or holding too many investments, may be detrimental to overall portfolio performance. We believe it is better to approach each investment decision with conviction. In our view, to balance risk and performance most favourably, the ideal number of quality companies in each portfolio would generally be 0-25.



### INVEST FOR THE LONG TERM

As investors who are willing to maintain perspective by taking a patient and disciplined approach, we believe we will be rewarded over the longer term. If our investment thesis holds true we persist with the investment. Many of our core investments can be held for 3-5 years or more where management execution has been consistent and the value proposition is clear.



### MANAGEMENT ALIGNMENT

One of the most fundamental factors which is consistent across the majority of company success stories in our investment universe is a high quality proven management team. We believe ownership of shares is the most transparent and pure alignment a management team can have with other shareholders. At NAOS, Directors and staff members own more than 15% of shares on issue across our strategies; the interests of our shareholders are well aligned with our own.



### IGNORE THE INDEX

Ignoring the index means we are not forced holders of stocks with large benchmark/index weightings that are not attractive investment propositions, from both a risk and return perspective. We actively manage each investment to ensure the best outcome for our shareholders and only invest in companies that we believe will provide excellent/sustainable long-term returns.



### PURE EXPOSURE TO INDUSTRIALS

With five large banks and two major mining companies making up 40% of the ASX-100 by market capitalisation, many Australian equity investors are at risk of being overexposed to these two sectors and may be missing out on opportunities to invest in quality companies in industries such as Media, Advertising, Agriculture or Building Materials. Industrial companies with a market capitalisation generally between \$10 million and \$1 billion are our core focus, and we believe the LICs we manage provide pure access to these companies which are potentially less well known by the broader investment community.



### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

We firmly believe that the sustainability of any investment has a direct link to the company's philosophy and activities in relation to both environmental and social impact. NAOS applies a specific investment policy for each of its investment strategies; factors which are analysed that affect our investment decision include environmental impact, labour policies, governance, philanthropic activities, social impact, human rights and waste.

Further information about NAOS can be found at [www.naos.com.au](http://www.naos.com.au)



## OUR TEAM



### SEBASTIAN EVANS

#### Chief Investment Officer

See bio on page 2.



### BEN RUNDLE

#### Portfolio Manager

Ben joined NAOS in January 2015 as a Portfolio Manager.

Ben has over 10 years' experience in financial markets and prior to joining NAOS he held various roles within the Financial Services Industry including roles at Macquarie Bank and most recently with Moelis and Company. Ben holds a Bachelor of Commerce, majoring in Accounting from the University of South Australia.



### JEFFREY KIM

#### Portfolio Manager

Jeffrey joined NAOS in August 2009 as an Investment Analyst and is now a Portfolio Manager.

Prior to joining the Firm, Jeffrey completed his double degree in Applied Finance and Accounting from Macquarie University.



### ROBERT MILLER

#### Portfolio Manager

Robert Miller has been with NAOS since September 2009 working with the investment team as an Investment Analyst and now Portfolio Manager.

Robert has completed his Bachelor's Degree in Business from the University of Technology Sydney, as well as completing his Masters of Applied Finance from the Financial Services Institute of Australasia.



### RICHARD PREEDY

#### Chief Financial and Operating Officer

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 10 years financial services experience in the UK and Australia, beginning his career in London with Deloitte & Touche before relocating to Sydney in 2013. Richard holds a BA (Hons) in Business Management from the University of Sheffield, and is a fully qualified Chartered Accountant.



### JULIA STANISTREET

#### Business Development Manager

Julia joined NAOS in September 2015. Prior to this, Julia held various Client Relationship roles within the Financial Services Industry in Australia and the UK including roles at Macquarie Bank and Deutsche Bank. Julia holds a Bachelor of Business degree majoring in Accounting from UTS and she also holds a Graduate Diploma in Applied Finance from KAPLAN.

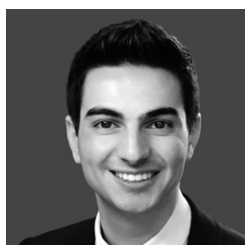


### MEGAN WALKER

#### Marketing and Communications Manager

Megan joined NAOS in December 2016 as the Marketing and Communications Manager.

Prior to joining NAOS, Megan gained over 4 years' experience in the financial services industry as a Relationship Manager specialising in shareholder relations for a range of ASX listed entities. Megan holds a Bachelor of Business degree majoring in Marketing and Communications.



### CHADD KNIGHTS

#### Associate Analyst

Chadd joined NAOS in June 2015 as an Investment Analyst. Chadd completed his double degree in Applied Finance and Economics from Macquarie University and is a candidate in the Chartered Financial Analyst (CFA) Program.



### RAJIV SHARMA

#### Senior Legal Counsel

Rajiv joined NAOS in August 2017. Most recently, he was Senior Legal Counsel at Magellan Financial Group and has previously worked at law firms, Johnson Winter & Slattery and Clayton Utz.

Rajiv holds a Bachelor of Laws (First Class Honours), a Bachelor of Business (Accounting major) and a Graduate Diploma in Legal Practice from the University of Technology, Sydney. He is a member of the Law Society of New South Wales and is admitted to the Supreme Court of NSW and the High Court of Australia.



### JULIE COVENTRY

#### Compliance Officer


Julie joined NAOS in November 2012 as Compliance Officer. Prior to joining NAOS, Julie worked within the Compliance and Performance teams at BZW Investment Management, Commonwealth Bank, Colonial First State and QBE. Julie holds a Bachelor of Business degree, majoring in Finance and Economics, from the University of Technology, Sydney and she also holds a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

## CORPORATE GOVERNANCE STATEMENT

### **CORPORATE GOVERNANCE**

The Board of NAOS Emerging Opportunities Company Limited are committed to achieving and demonstrating the highest standards of corporate governance. As such, the Company has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and the nature of its activities.

The Board has adopted the ASX Corporate Governance Principles and Recommendations which are complemented by the Company's core principles of honesty and integrity. The corporate governance policies and practices adopted by the Board are outlined in the Corporate Governance section of the Company's website ([www.naos.com.au/corporate-governance](http://www.naos.com.au/corporate-governance)).



Our objective seeks to provide investors with genuine exposure to undervalued emerging Australian companies with an industrial focus regardless of size or liquidity.

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## DIRECTORS' REPORT

The Directors of NAOS Emerging Opportunities Company Limited ACN 161 106 510 ("the Company"), submit their report for the Company for the year ended 30 June 2017.

### **COMPANY INFORMATION**

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Stock Exchange. The company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services Licence No. 273529) (the "Investment Manager").

### **PRINCIPAL ACTIVITIES**

The Company was constituted on 6 November 2012 to invest primarily in a concentrated portfolio of listed entities that are not included in the S&P/ASX 100 Accumulation Index with the objective of providing investors with genuine exposure to emerging companies, with a long-term value focus.

### **DIRECTORS AND OFFICERS**

The names of the Directors of the Company, in office from inception (6 November 2012) and up to the date of this report are:

Name	Title
David Rickards	Independent Chairman (appointed from 20 November 2012)
Warwick Evans	Director
Sebastian Evans	Director

Further details regarding the Directors' qualifications and experience are set out on page 2 of the annual report.

### **MEETINGS OF DIRECTORS**

The following table shows the number of Board meetings held during the financial year ended 30 June 2017.

	Year ended 30 June 2017	
	Eligible to attend	Attended
Mr David Rickards (Chairman)	11	11
Mr Warwick Evans (Director)	11	11
Mr Sebastian Evans (Director)	11	11

### **INTERESTS IN SHARES OF THE COMPANY**

As at the date of this report, the relevant interests of the Directors and their related parties in the shares of the Company were:

	30 June 2017 Relevant interests (Shares)	30 June 2016 Relevant interests (Shares)
Mr David Rickards (Chairman)	664,555	613,415
Mr Warwick Evans (Director)	2,000,193	1,910,061
Mr Sebastian Evans (Director)	1,165,131	916,590

### **OTHER DIRECTORSHIPS**

Sebastian Evans, Warwick Evans, and David Rickards are currently Directors of the NAOS Absolute Opportunities Company Limited. Sebastian Evans and Warwick Evans are also Directors of the Investment Manager.

## DIRECTORS' REPORT

Continued

### REVIEW OF OPERATIONS

#### Results

Please refer to the Investment Manager's review on page 4 regarding the performance of the Company.

The results of the operations of the Company are disclosed in the Statement of Profit or Loss and Other Comprehensive Income of these financial statements. The results and dividends for the year ended 30 June 2017 and 30 June 2016 were as follows:

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Profit before income tax	6,115,405	11,237,685
Income tax expense	(1,529,231)	(3,173,938)
Profit for the year	4,586,174	8,063,747
Profit for the year attributable to shareholders	4,586,174	8,063,747

#### Dividends Paid or Payable

Year ended 30 June 2017

	Dividend rate (cents per share)	Total \$ amount	% Franked	Date of payment
2016 final dividend (declared 25 August 2016)	3.50	1,642,142	100%	11 November 2016
2017 interim dividend (declared 13 February 2017)	3.50	1,652,108	100%	21 April 2017
		3,294,250		

Year ended 30 June 2016	Dividend rate (cents per share)	Total \$ amount	% Franked	Date of payment
2015 final dividend (declared 28 August 2015)	3.00	1,407,549	100%	12 November 2015
2016 interim dividend (declared 13 February 2016)	3.25	1,524,845	100%	29 April 2016
		2,932,394		

Since 30 June 2017, the Board has declared a final dividend of 3.5 cents per share, fully franked, to be paid on 1 November 2017.

**Financial Position**

The net asset value of the Company as at 30 June 2017 was \$73,177,104 (2016: \$55,400,469). Further information on the financial position of the Company is included in the Chairman's letter.

**Significant Changes in State of Affairs**

There were no other significant changes in the state of affairs of the Company.

**Subsequent Events**

On 24 August 2017, the Company declared a fully franked dividend of 3.5 cents per share.

Other than the matters described above, there has been no matter or circumstances occurring subsequent to the end of the year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

**Likely Developments**

The Company will be managed in accordance with the Constitution and investment objectives.

**Environmental Regulation and Performance**

The operations of the Company are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Company.

**Indemnification of Directors, Officers and Auditors**

During the financial year, the Company paid premiums in respect of contracts insuring the Directors against a liability incurred as a Director or executive officer to the extent permitted by the Corporations Act 2001. The contracts of insurance prohibit disclosure of the nature of the liability and the amount of the premiums.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability as such an officer or auditor.

## DIRECTORS' REPORT

Continued

### REMUNERATION REPORT

The Directors of the Company present the Remuneration Report to shareholders. The report is a requirement under section 300A (1) of the Corporations Act and covers the following information:

- the Board's policy for determining the nature and amount of remuneration of Directors and other key management personnel (if any) of the Company;
- a discussion of the relationship between such policy and the Company's performance; and
- the details of the remuneration of the Directors and other management personnel (if any).

#### Remuneration of Directors

The Board from time to time determines remuneration of Non-Executive Directors within the maximum amount approved by shareholders. This is the only remuneration that Directors are entitled to.

Payments to Directors reflect the demands and responsibilities of their roles and are reviewed annually by the Board. The Company determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

Directors' base fees are set at a maximum of \$100,000 per annum. Directors do not receive bonuses nor are they issued options on securities. The maximum fees paid to Directors may not be increased without approval from the Company at a general meeting.

Director's remuneration received for the year ended 30 June 2017 and the year ended 30 June 2016 is disclosed below:

	Short-term employee benefits Directors' fees \$	Post- employment benefit Superannuation \$	Total
<b>30 June 2017</b>			
Mr David Rickards (Chairman)	31,963	3,037	35,000
Mr Warwick Evans (Director)	9,132	868	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,095</b>	<b>3,905</b>	<b>45,000</b>

	Short-term employee benefits Directors' fees \$	Post- employment benefit Superannuation \$	Total
<b>30 June 2016</b>			
Mr David Rickards (Chairman)	31,963	3,037	35,000
Mr Warwick Evans (Director)	9,132	868	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,095</b>	<b>3,905</b>	<b>45,000</b>

Mr Sebastian Evans is remunerated by the Investment Manager and is currently not entitled to Director's remuneration from the Company.



During the financial year ended 30 June 2017 and the year ended 30 June 2016, the relevant interests of the Directors and their related parties in the shares of the Company were:

Ordinary shares Year ended 30 June 2017	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	613,415	51,140	–	664,555
Mr Warwick Evans (Director)	1,910,061	90,132	–	2,000,193
Mr Sebastian Evans (Director)	916,590	248,541	–	1,165,131

Ordinary shares Year ended 30 June 2016	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	578,782	34,633	–	613,415
Mr Warwick Evans (Director)	1,794,697	115,364	–	1,910,061
Mr Sebastian Evans (Director)	836,800	79,790	–	916,590

#### NON-AUDIT SERVICES

No non-audit services were provided during the year. Refer to Note 11 of this financial report for details of auditor remuneration.

#### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 16. This Directors' Report is signed in accordance with a resolution of Directors of the Company made pursuant to Section 298 (2) of the Corporations Act 2001.



Sebastian Evans  
Director  
24 August 2017

**Deloitte.**

Deloitte Touche Tohmatsu  
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The Board of Directors  
NAOS Emerging Opportunities Company Limited  
Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000

24 August 2017

Dear Directors,

**NAOS Emerging Opportunities Company Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of NAOS Emerging Opportunities Company Limited.

As lead audit partner for the audit of the financial statements of NAOS Emerging Opportunities Company Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Stuart Alexander  
Partner  
Chartered Accountants

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## Independent Auditor's Report to the Members of NAOS Emerging Opportunities Company Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of NAOS Emerging Opportunities Company Limited ("the Company"), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of NAOS Emerging Opportunities Company Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to directors as at the time of this auditor's report.

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b><u>Valuation and existence of financial assets held at fair value through profit or loss</u></b></p> <p>As at 30 June 2017, the Company's financial assets held at fair value through profit or loss amounted to \$76.7 million as disclosed in Notes 7 and 16.</p> <p>These are the Company's largest assets and they represent the most significant driver of the Company's revenue and its performance.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• evaluating key controls in place at the outsourced service providers (i.e. administrator and custodian) in relation to the valuation and existence of financial assets at fair value through profit or loss, including any exceptions noted;</li> <li>• agreeing, on a sample basis, the valuation of listed equity securities to an independent pricing source; and</li> <li>• agreeing, on a sample basis, the investment holdings to the external custodian holdings statement.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 7 and 16 to the financial statements.</p>

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## Deloitte.

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibility for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

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

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

# Deloitte.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 14 to 15 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of NAOS Emerging Opportunities Company Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Stuart Alexander  
Partner  
Chartered Accountants  
Sydney, 24 August 2017

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Income	3	7,801,019	13,000,673
<b>Expenses</b>			
Management fees	15	(857,322)	(675,811)
Performance fees	15	(342,644)	(493,778)
Administration fees		(63,674)	(62,861)
Directors' remuneration		(45,000)	(45,000)
Australian stock exchange fees		(48,937)	(15,359)
Auditor's remuneration		(36,000)	(39,464)
Prime broker and custody fees		(42,882)	(122,907)
Registry fees		(63,886)	(36,406)
Company secretarial fees		(30,000)	(27,092)
Interest expense		(2,499)	(22,955)
Other expenses		(152,770)	(221,355)
<b>Profit before income tax expense</b>		<b>6,115,405</b>	<b>11,237,685</b>
Income tax expense	4(a)	(1,529,231)	(3,173,938)
<b>Profit for the year attributable to shareholders of the Company</b>		<b>4,586,174</b>	<b>8,063,747</b>
Other comprehensive income		–	–
<b>Total comprehensive income for the year attributable to shareholders of the Company</b>		<b>4,586,174</b>	<b>8,063,747</b>
Basic and diluted earnings per share	17	9.47	17.19

The accompanying notes to the financial statements should be read in conjunction with this statement.

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2017**

	Note	As at 30 June 2017 \$	As at 30 June 2016 \$
<b>Assets</b>			
Cash and cash equivalents	12	202,637	–
Trade and other receivables	6	1,667,450	2,155,710
Financial assets at fair value through profit or loss	7	76,685,234	57,565,714
Deferred tax assets	4(b)	206,109	600,997
<b>Total assets</b>		<b>78,761,430</b>	<b>60,322,421</b>
<b>Liabilities</b>			
Bank overdraft	12	–	490,255
Trade and other payables	8	858,428	753,928
Provision for income tax		1,498,909	–
Deferred tax liabilities	4(c)	3,226,989	3,677,769
<b>Total liabilities</b>		<b>5,584,326</b>	<b>4,921,952</b>
<b>Net assets</b>		<b>73,177,104</b>	<b>55,400,469</b>
<b>Equity</b>			
Issued capital – Ordinary shares	9	63,163,012	46,678,301
Accumulated losses	10(d)	(1,364,761)	–
Profit reserve	10(c)	11,378,853	8,722,168
<b>Total equity</b>		<b>73,177,104</b>	<b>55,400,469</b>

The accompanying notes to the financial statements should be read in conjunction with this statement.

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Issued capital \$	Share option reserve \$	Accumulated losses \$	Retained earnings \$	Profits reserve \$	Total \$
Balance at 1 July 2015	46,678,301	1,434,545	–	2,156,270	–	50,269,116
Profit for the year	–	–	–	8,063,747	–	8,063,747
Other comprehensive income for the year	–	–	–	–	–	–
Transfer to profits reserve	–	–	–	(11,654,562)	11,654,562	–
Dividends paid	–	–	–	–	(2,932,394)	(2,932,394)
Dividend reinvestment on market shares	582,133	–	–	–	–	582,133
Purchase of shares on market for DRP	(582,133)	–	–	–	–	(582,133)
Transfer from share option reserve	–	(1,434,545)	–	1,434,545	–	–
<b>Balance at 30 June 2016</b>	<b>46,678,301</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,722,168</b>	<b>55,400,469</b>
Balance at 1 July 2016	46,678,301	–	–	–	8,722,168	55,400,469
Profit for the year	–	–	–	5,950,935	–	5,950,935
Accumulated loss for the year	–	–	(1,364,761)	–	–	(1,364,761)
Other comprehensive income for the year	–	–	–	–	–	–
Transfer to profits reserve	–	–	–	(5,950,935)	5,950,935	–
Dividends paid	–	–	–	–	(3,294,250)	(3,294,250)
Shares issued under dividend reinvestment plan	716,825	–	–	–	–	716,825
Shares issued under placement and share purchase plan	15,969,047	–	–	–	–	15,969,047
Share placement costs (net of tax)	(201,161)	–	–	–	–	(201,161)
<b>Balance at 30 June 2017</b>	<b>63,163,012</b>	<b>–</b>	<b>(1,364,761)</b>	<b>–</b>	<b>11,378,853</b>	<b>73,177,104</b>

The accompanying notes to the financial statements should be read in conjunction with this statement.



**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Year ended 30 June 2017	Year ended 30 June 2016
Note	\$	\$
<b>Cash flows from operating activities</b>		
Dividends received	1,040,985	725,531
Interest received	12,730	27,398
Interest paid	(3,710)	(23,291)
Management fees paid	(832,881)	(633,705)
Performance fee paid	(504,837)	–
Directors' remuneration paid	(45,000)	(45,000)
Income tax paid	(1,163,379)	62,005
Administration and tax service fee paid	(69,434)	(76,484)
Prime broker and custody fees paid	(41,134)	(146,927)
Audit fee paid	(43,010)	(34,811)
Registry fee paid	(64,783)	(36,406)
Marketing expense paid	(21,428)	(56,581)
Professional fee paid	(33,333)	(80,097)
Australian Stock Exchange fee paid	(61,456)	(15,830)
Company secretarial fees paid	(30,000)	(27,092)
Other payments	(89,759)	(356,803)
Other receipts	7,140	17,515
<b>Net cash (used in) operating activities</b>	<b>12(b) (1,943,289)</b>	<b>(700,578)</b>
<b>Cash flows from investing activities</b>		
Payments from purchase of investments	(51,250,984)	(61,153,827)
Proceeds from sale of investments	40,765,225	61,542,652
<b>Net cash (used in)/provided by investing activities</b>	<b>(10,485,759)</b>	<b>388,825</b>
<b>Cash flows from financing activities</b>		
Receipts from shares issued	15,969,047	–
Placement fees on shares issued	(287,373)	–
Payments for purchase of shares on market for DRP	–	(582,133)
Dividends paid	(2,559,734)	(2,320,182)
<b>Net cash provided by/(used in) financing activities</b>	<b>13,121,940</b>	<b>(2,902,315)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>692,892</b>	<b>(3,214,068)</b>
Cash and cash equivalents/(bank overdraft) at the beginning of the year	(490,255)	2,723,813
<b>Cash and cash equivalents/(bank overdraft) at the end of the year</b>	<b>12(a) 202,637</b>	<b>(490,255)</b>
<b>Non-cash activities – Dividend reinvestment</b>	<b>716,825</b>	<b>582,133</b>

The accompanying notes to the financial statements should be read in conjunction with this statement.

### GENERAL INFORMATION

NAOS Emerging Opportunities Company Limited (the "Company") is a public company listed on the Australian Securities Exchange (ASX: NCC) registered and domiciled in Australia. The Company was constituted on 6 November 2012 and commenced operations on 22 February 2013.

The registered office and principal place of business of the Company is Level 34, MLC Centre 19, Martin Place, Sydney NSW 2000.

NAOS Asset Management Limited (the "Investment Manager") is the investment manager for the Company. The financial statements were authorised for issue by the Directors on 24 August 2017.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and interpretations of the Australian Accounting Standards Board (the "AASB"), and the Corporations Act 2001 in Australia. For the purposes of preparing financial statements, the Company is a for-profit entity.

This general purpose financial report has been prepared on an accruals basis using historical cost convention, except for the revaluation of investments in financial assets and liabilities, which have been measured at fair value through profit or loss.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and financial liabilities at fair value through profit or loss and net assets attributable to shareholders.

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on the historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

Other than the items detailed in the accounting policies below there are no differences in actual and estimated results.

#### b) Prior Year Comparitives

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements. Where the presentation or classification of items in the financial statements is amended, the comparative amounts have been reclassified to conform with current year presentation.

#### c) Statement of Compliance

The financial report of the Company, comprising the financial statements and notes thereto, complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (the "IASB").

#### d) Reporting Currency

All amounts are presented in Australian dollars as the functional and presentational currency of the Company.

#### e) Going Concern Basis

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

### f) Revenue and Income Recognition

#### Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Net gains/(losses) on financial instruments held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the period end and the fair value at the previous valuation point. Net gains/(losses) also include realised gains/(losses) and do not include interest or dividend income.

#### Dividends

Dividend income is recognised on the ex-dividend date with the corresponding foreign withholding tax recorded as an expense.

#### Interest Income

Interest income is recognised on a time proportionate basis taking into account the effective yield on the financial assets.

### g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within current liabilities on the Statement of Financial Position.

### h) Investments in Financial Instruments

Investments in financial instruments, as defined by AASB 132 "Financial Instruments: Presentation", are categorised in accordance with AASB 139 "Financial Instruments: Recognition and Measurement". This classification is determined by the purpose underpinning the acquisition of the investment. The classification of each financial instrument is re-evaluated at each financial period end.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### h) Investments in Financial Instruments (continued)

#### i) Classification

The Company's investments are categorised as at fair value through profit or loss. They comprise:

#### *Financial Instruments Designated at Fair Value through Profit or Loss*

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded or unlisted equity instruments.

Financial assets and financial liabilities designated at fair value through profit or loss at commencement of operations are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy.

#### ii) Recognition/derecognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets and financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Company has transferred substantially all the risks and rewards of ownership.

#### (iii) Measurement

#### *Financial Assets and Liabilities held at Fair Value through Profit or Loss*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss on the Statement of Profit or Loss and Other Comprehensive Income.

#### *Fair Value in an Active Market*

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. The quoted market price used for financial assets and liabilities held by the Company is the current close price.

Net gains/(losses) on financial instruments held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at period end and the fair value at the previous valuation point. Net gains/(losses) include realised gains/(losses) and do not include interest or dividend income.

#### i) Expenses

All expenses, including Investment Manager's fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

#### j) Receivables

Receivables may include amounts for dividends, interest, trust distributions and amounts due from brokers. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in Note 1(f) above. Receivables also include such items as Reduced Input Tax Credits ("RITC").

#### k) Payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities, amounts due to brokers and accrued expenses owed by the Company which are unpaid as at the end of the reporting period.

#### l) Taxation

The income tax expense comprises current and deferred tax.

Current income tax expense/(benefit) is the tax payable/(receivable) on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/(assets) are therefore measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Current and deferred tax expense/(benefit) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity. Deferred tax assets and liabilities are ascertained based on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Continued

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### **m) Dividends**

Dividends payable are recognised in the reporting period in which they are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

### **n) Foreign Currency Transactions**

Transactions in foreign currencies are brought to account at the prevailing exchange rates at the date of the transaction. Foreign currency monetary items are translated at the exchange rate existing on reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. The differences arising from these foreign currency translations are recognised in profit/(loss) on the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

### **o) Share Capital**

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect.

### **p) Share Option Reserve**

The share option reserve is measured at the fair value of the options at the date of issue. Subsequent to this date, the share option reserve is adjusted, with a corresponding entry to share capital, only on exercise of the options by shareholders for the amount residing in the share option reserve relating to the options exercised.

### **q) Goods and Services Tax ("GST")**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST is not recoverable from the taxation authority, it is recognised as part of acquisition of an asset or part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable, to the tax authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### **r) Earnings Per Share**

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares and potential ordinary shares (options) outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

### **s) Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

In the application of the accounting policies, management are required to make judgements, estimates and assumptions about carrying values of some assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

### a) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 1 July 2016 that have had a material impact on the Company.

### b) Standards and Interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective, and are available for early adoption.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 "Leases"	1 January 2019	30 June 2020
Clarifications to IFRS 15 "Revenue from Contracts with Customers"	1 January 2018	30 June 2019
AASB 9 "Financial Instruments", and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 "Revenue from Contracts with Customers"	1 January 2017	30 June 2018
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	30 June 2018
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018

The potential effect of these standards on the Company's financial statements has not yet been determined. However, based on the Company's preliminary assessment, the above Standards and Interpretations are not expected to have a material impact on the amounts recognised in these financial statements. There are no other Standards and Interpretations that are not yet effective and that are expected to have a material impact on the Company during the current or future reporting periods.

## 3. INCOME

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Gains/(losses) on financial instruments held at fair value through profit or loss	6,841,734	12,158,027
Interest income	12,300	22,972
Dividend income	946,985	819,531
Other income	–	143
	<b>7,801,019</b>	<b>13,000,673</b>

## 4. INCOME TAX

### a) Income Tax Expense

The prima facie tax on profit before income tax is reconciled to the income tax expense as follows:

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Prima facie income tax expense calculated at 30%	1,834,621	3,371,306
Imputation credit gross up	130,883	85,258
Franking credit offset	(436,273)	(282,626)
	<b>1,529,231</b>	<b>3,173,938</b>
Effective tax rate	25%	28%

## NOTES TO THE FINANCIAL STATEMENTS

Continued

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
<b>Total Income tax expense results in a:</b>		
Current tax liability	1,498,909	–
Change in deferred tax liability	(450,780)	3,680,672
Change in deferred tax asset*	481,102	(506,734)
	<b>1,529,231</b>	<b>3,173,938</b>

\*Changes in deferred tax assets exclude the impact of items directly recognised in equity.

### b) Deferred Tax Asset

Deferred income tax assets comprises the estimated expense at the current income tax rates of 30% on the following items:

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Tax loss including franking credits	–	380,209
Other temporary differences in relation to future deductible liabilities	120,019	174,673
Capitalised share issue and placement costs	86,090	46,115
	<b>206,109</b>	<b>600,997</b>

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
<b>Movement in deferred tax assets</b>		
Balance at the beginning of the period	600,997	96,696
Credited/(charged) to the Statement of Profit or Loss and Other Comprehensive Income	(434,863)	458,186
Capitalised share issue and placement costs	39,975	46,115
<b>At reporting date</b>	<b>206,109</b>	<b>600,997</b>

### c) Deferred tax Liabilities

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Fair value adjustments	3,226,989	3,677,769
<b>Movement in deferred tax liabilities</b>		
Balance at the beginning of the year	3,677,769	–
Charged/(credited) to the Statement of Profit or Loss and Other Comprehensive Income	(450,780)	3,677,769
<b>At reporting date</b>	<b>3,226,989</b>	<b>3,677,769</b>

## 5. DIVIDEND PAID OR PAYABLE

Year ended 30 June 2017	Dividend rate (cents per share)	Total amount (\$)	% Franked	Date of payment
2016 final dividend (declared 25 August 2016)	3.50	1,642,142	100%	11 November 2016
2017 interim dividend (declared 13 February 2017)	3.50	1,652,108	100%	21 April 2017
		3,294,250		

Year ended 30 June 2016	Dividend rate (cents per share)	Total amount (\$)	% Franked	Date of payment
2015 final dividend (declared 28 August 2015)	3.00	1,407,549	100%	12 November 2015
2016 interim dividend (declared 13 February 2016)	3.25	1,524,845	100%	29 April 2016
		2,932,394		

Dividends payable at 30 June 2017 were \$71,026 (2016: \$53,335).

### Dividend Franking Information

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Franking credits available for shareholders from previous financial periods	53,154	817,980
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	40,286
Impact on the franking account of dividends paid during the year	(1,411,821)	(1,256,741)
Impact on the franking account of dividends received during the year	395,991	282,624
Impact on franking account of income tax paid during the year	1,163,379	169,005
Adjusted franking account balance	200,703	53,154

The Company's ability to continue to pay franked dividends is dependant upon the receipt of franked dividends from investments and the payment of tax.

## 6. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 \$	As at 30 June 2016 \$
GST receivable	57,052	62,635
Income tax paid in advance	1,317,892	154,515
Receivable from investments sold	249,870	1,799,937
Dividends receivable	–	94,000
Prepaid expenses	37,636	32,197
Other receivables	5,000	12,426
	1,667,450	2,155,710

Receivables are non-interest bearing and unsecured. Outstanding trades i.e. 'Receivable from investments sold' are on the terms operating in the securities industry which usually require settlement within two days of the date of the transaction. None of the receivables are past due or impaired at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 7. INVESTMENTS IN FINANCIAL INSTRUMENTS

#### Financial assets at Fair Value through Profit or Loss

	As at 30 June 2017 \$	As at 30 June 2016 \$
Investment in ordinary shares	75,135,224	56,113,895
Investment in unlisted convertible notes	–	1,451,819
Investment in unlisted shares	1,550,010	–
<b>Total financial assets at fair value through profit or loss</b>	<b>76,685,234</b>	<b>57,565,714</b>

#### Financial liabilities at Fair Value through Profit or Loss

There were no financial liabilities at fair value through profit or loss as at 30 June 2017 (2016: \$ nil).

#### Disclosed fair values

For all financial instruments other than those measured at fair value, their carrying value approximates fair value.

### 8. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	As at 30 June 2017 \$	As at 30 June 2016 \$
Auditors' remuneration payable	16,558	23,568
Interest payable	–	1,211
Management fee payable	89,516	65,075
Unsettled trades payable	284,650	42,690
Performance fees payable	367,716	529,909
Dividend payable	71,026	53,335
Other payables	28,962	38,140
<b>Total</b>	<b>858,428</b>	<b>753,928</b>

Payables are non-interest bearing and unsecured. Unsettled trades are on the terms operating in the securities industry which usually require settlement within two days of the date of the transaction.



## 9. ISSUED CAPITAL

	30 June 2017		30 June 2016	
	No of shares	\$	No of shares	\$
Issued and paid up capital – Ordinary shares	59,173,393	63,163,012	46,918,297	46,678,301

Detailed provisions relating to the rights attaching to the shares are set out in the Company's Constitution and the Corporations Act 2001. The detailed provisions relating to the rights attaching to shares under the Constitution and the Corporations Act 2001 are summarised below.

Each share will confer on its holder:

- the right to receive notice of and to attend general meetings of the Company and to receive all financial statements, notices and documents required to be sent to them under the Constitution and the Corporations Act 2001;
- the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none);
- the right to receive dividends;
- the right to receive, in kind, the whole or any part of the Company's property in a winding up, subject to the rights of a liquidator of the Company (with consent of shareholders by special resolution); and
- subject to the Corporations Act 2001 and the ASX Listing Rules, shares are fully transferable.

### Movements in Ordinary Share Capital

Date	Details	No of shares	Issue price \$	\$
1 July 2015	Opening balance	46,918,297		46,678,301
	Dividend reinvestment on market shares	589,609		582,133
	Purchase of shares on-market for Dividend Reinvestment Plan	(589,609)		(582,133)
30 June 2016	Closing balance	46,918,297		46,678,301
1 July 2016	Opening balance	46,918,297		46,678,301
	Shares issued under Dividend Reinvestment Plan	513,307		716,825
	Shares issued under placement and Share purchase plan	11,741,789	1.36	15,969,047
	Share placement fees (net of tax)	–		(201,161)
30 June 2017	Closing balance	59,173,393		63,163,012

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 10. RESERVES

#### a) Retained Earnings

	As at 30 June 2017 \$	As at 30 June 2016 \$
Opening balance	–	2,156,270
Net profit attributable to shareholders of the Company	5,950,935	8,063,747
Option expired 1 August 2015	–	1,434,545
Transfer to profits reserve	(5,950,935)	(11,654,562)
<b>Closing balance</b>	<b>–</b>	<b>–</b>

#### b) Share Option Reserve

The movement in the share option reserve is detailed below:

	As at 30 June 2017 \$	As at 30 June 2016 \$
Opening balance	–	1,434,545
Options expired on 1 August 2015	–	(1,434,545)
<b>Closing balance</b>	<b>–</b>	<b>–</b>

The movement in the number of share options is detailed below:

	As at 30 June 2017 No of options	As at 30 June 2016 No of options
Opening balance	–	11,789,026
Options expired on 1 August 2015	–	(11,789,026)
<b>Closing balance</b>	<b>–</b>	<b>–</b>

#### c) Profits reserve

	As at 30 June 2017 \$	As at 30 June 2016 \$
Opening balance	8,722,168	–
Transfer from Retained Earnings	5,950,935	11,654,562
Dividend paid	(3,294,250)	(2,932,394)
<b>Balance at the end of the year</b>	<b>11,378,853</b>	<b>8,722,168</b>

To the extent possible under the Corporations Act 2001 and applicable tax laws, the profits reserve is preserved for future dividend payments.

#### d) Accumulated losses

	As at 30 June 2017 \$	As at 30 June 2016 \$
Opening balance	–	–
Net accumulated losses attributable to shareholders of the Company	(1,364,761)	–
<b>Closing balance</b>	<b>(1,364,761)</b>	<b>–</b>

During the half year period to 30 June 2017, the Company recorded accumulated losses of \$1,364,761 (2016: \$ nil).

## 11. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-audit related services:

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Deloitte Touche Tohmatsu – audit and review of the financial reports	36,000	39,464
<b>Total audit fee expense</b>	<b>36,000</b>	<b>39,464</b>

## 12. CASH AND CASH EQUIVALENTS

### a) Components of Cash and Cash Equivalents

	As at 30 June 2017 \$	As at 30 June 2016 \$
Cash at banks/(overdraft)	202,637	(490,255)

### b) Reconciliation of Net Profit for the Year to Cash Used in Operating Activities

	As at 30 June 2017 \$	As at 30 June 2016 \$
Profit for the year attributable to shareholders after tax	4,586,174	8,063,747
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	(6,841,734)	(12,158,027)
Income tax expense recognised in the Statement of Profit or Loss and Other Comprehensive Income	1,529,231	3,173,938
Income tax paid	(1,163,379)	62,005
Change in assets and liabilities:		
Increase/(decrease) in trade and other receivables	101,570	(337,504)
(Increase)/decrease in trade and other payables	(155,151)	495,263
<b>Net cash used in operating activities</b>	<b>(1,943,289)</b>	<b>(700,578)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 13. KEY MANAGEMENT PERSONNEL

#### a) Key Management Personnel Compensation

The remuneration of the Company's key management personnel and their related entities for the year ended 30 June 2017 was \$45,000 (2016: \$45,000).

There were no shares granted during the reporting period as compensation to the Directors.

#### b) Related Party Shareholdings

##### *NAOS Asset Management Limited*

The Company has outsourced its investment management function to NAOS Asset Management Limited. As at 30 June 2017, NAOS Asset Management Limited holds 758,263 shares (1.28%) (2016: 577,855 shares (1.23%)) in the Company.

Other than the disclosure at Note 15 there was no interest in the Company held by other entities also managed by the key management personnel.

##### *Holdings of Shares by Key Management Personnel*

During the year, the relevant interests of the Directors and their related parties in the shares of the Company were:

	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
<b>Ordinary shares Year ended 30 June 2017</b>				
Mr David Rickards (Chairman)	613,415	51,140	–	664,555
Mr Warwick Evans (Director)	1,910,061	90,132	–	2,000,193
Mr Sebastian Evans (Director)	916,590	248,541	–	1,165,131
<b>Ordinary shares Year ended 30 June 2016</b>				
	Opening balance No of shares	Net acquired No of shares	Net sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	578,782	34,633	–	613,415
Mr Warwick Evans (Director)	1,794,697	115,364	–	1,910,061
Mr Sebastian Evans (Director)	836,800	79,790	–	916,590

#### c) Other Transactions within the Company

Apart from those details disclosed in this note, no other key management personnel have entered into a material contract with the Company during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

## 14. SEGMENT INFORMATION

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from dividend income, interest income and from the investment portfolio.

## 15. RELATED PARTY INFORMATION

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

### Management Fees

In return for the performance of its duties, the Investment Manager of the Company is entitled to be paid a monthly management fee equal to 0.104% (excluding GST) of the gross value of the portfolio calculated on the first business day of each month representing an annualised management fee of 1.25% (excluding GST) per annum of the average gross value of the portfolio. At its discretion and subject to shareholder approval, the Investment Manager may elect to be paid in shares.

The following management fees were paid or payable to the Investment Manager during the year ended 30 June 2017:

- Management fees of \$857,332 (2016: \$675,811) (excluding RITC\*) were incurred during the year.
- Management fees payable at 30 June 2017 were \$89,516 (2016: \$65,075) (including RITC\*).

### Performance Fees

In the event that the portfolio outperforms the Benchmark Index, the Company must pay the Investment Manager a performance fee equal to 15% (excluding GST) per annum of the amount the portfolio outperforms the Benchmark Index. No performance fee is payable if the portfolio underperforms the Benchmark Index. Any underperformance to the Benchmark Index is carried forward to future performance calculation periods and must be recouped before the Investment Manager is entitled to a performance fee. At its discretion and subject to shareholder approval, the Investment Manager may elect to receive the performance fee in shares.

The following performance fees were paid or payable to the Investment Manager during the year ended 30 June 2017:

- Performance fees of \$342,644 (2016: \$493,778) (excluding RITC\*) were incurred during the year.
- Performance fees payable at 30 June 2017 were \$367,716 (2016: \$529,909) (including RITC\*).

\*RITC – Reduced Input Tax Credit on GST of 75%.

## 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks arising from holding financial instruments are inherent in the Company's activities. These risks are managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to credit risk, liquidity risk and market risk.

Financial instruments of the Company comprise investments in financial assets held for the purpose of generating a return on the investment made by shareholders. In addition, the Company also holds cash and cash equivalents, and other financial instruments such as trade debtors and creditors, which arise directly from the operations of the Company. The responsibility for identifying and controlling the risks that arise from these instruments is that of the Investment Manager of the Company.

The method used to measure the risks reflects the expected impact on the performance of the Company as well as the assets attributable to shareholders of the Company resulting from reasonably possible changes in the relevant risk variables. Information regarding the Company's risk exposure is prepared and monitored by the Investment Manager against established investment mandate limits. These mandate limits reflect the investment strategy and market environment of the Company as well as the level of risk the Company is willing to accept. Information about these risk exposures at reporting date is disclosed throughout note 16.

### a) Credit Risk

Credit risk represents the risk that the Company will incur financial loss as a result of a failure by a counterparty to discharge an obligation to a financial instrument. In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their contractual obligations.

This risk may be minimised by:

- ensuring counterparties, together with the respective credit limits, are approved;
- ensuring that the transactions are undertaken with a large number of counterparties; and
- ensuring that the transactions are undertaken on recognised exchanges.

#### *(i) Settlement of securities transactions*

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase orders on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

#### *(ii) Cash and cash equivalents*

The exposure to credit risk for cash and cash equivalents is low as all counterparties (National Australia Bank, Australian Executor Trustees, Deutsche Bank) have a rating of "A" or higher.

#### *(iii) Other*

The Company is not materially exposed to credit risk on other financial assets. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are considered to be impaired or past due.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### b) Market Risk

Market risk is the risk that the fair value of future cash flows will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity prices and other price risks and liquidity. Market risk is managed and monitored on an ongoing basis by the Investment Manager.

By its nature, as a listed investment company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

##### (i) Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company may be exposed to foreign currency risk if its portfolio includes securities that are denominated in a foreign currency. Currency risk may be reduced by the use of cross-currency swaps, foreign exchange forwards and spot contracts.

The Company was not exposed to direct currency risk during the year ended 30 June 2017 (2016: \$ nil).

	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2017</b>			
<b>Assets</b>			
Cash and cash equivalents	202,637	–	202,637
Trade and other receivables	–	1,667,450	1,667,450
Financial assets at fair value through profit or loss	–	76,685,234	76,685,234
<b>Total Assets</b>	<b>202,637</b>	<b>78,352,684</b>	<b>78,555,321</b>
<b>Liabilities</b>			
Trade and other payables	–	858,428	858,428
<b>Total liabilities</b>	<b>–</b>	<b>858,428</b>	<b>858,428</b>
<b>Net exposure</b>	<b>202,637</b>	<b>77,494,256</b>	<b>77,696,893</b>
	Floating interest rate \$	Non-interest bearing \$	Total \$

#### 30 June 2016

##### Assets

Trade and other receivables	–	2,155,710	2,155,710
Financial assets at fair value through profit or loss	–	57,565,714	57,565,714
<b>Total Assets</b>	<b>–</b>	<b>59,721,424</b>	<b>59,721,424</b>

##### Liabilities

Bank Overdraft	490,255	–	490,255
Trade and other payables	–	753,928	753,928
<b>Total liabilities</b>	<b>490,255</b>	<b>753,928</b>	<b>1,244,183</b>
<b>Net exposure</b>	<b>(490,255)</b>	<b>58,967,496</b>	<b>58,477,241</b>

*(ii) Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The sensitivity analyses below have been determined based on the Company's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible changes in interest rates.

	Change in basis points increase/(decrease)	Impact on operating profit/Net assets attributable to shareholders \$
<b>30 June 2017</b>		
AUD interest rate	25bps/(25bps)	507/(507)
<b>30 June 2016</b>		
AUD interest rate	25bps/(25bps)	(1,226)/1,226

*(iii) Price Risk*

Price risk is the risk that the fair value of investments decreases as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Price risk is managed by monitoring compliance with established investment mandate limits. All securities present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

As at 30 June, a 10% sensitivity would have had an impact in the Company's Statement of Profit or Loss and Other Comprehensive Income and net assets attributable to shareholders as shown in the table below:

	Impact on operating profit/Net assets attributable to shareholders	
	-10% \$	+10% \$
30 June 2017	(7,668,523)	7,668,523
30 June 2016	(5,756,571)	5,756,571

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### b) Market Risk (continued)

##### (iv) Other Price Risk

The Investment Manager seeks to manage and reduce the other price risk of the Company by diversification of the investment portfolio across numerous stocks and multiple industry sectors. The relative weightings of the individual securities and market sectors are reviewed daily and the risk managed on a daily basis.

The Company's industry sector weighting of the gross assets as at the reporting date is as below:

Industry	% of Portfolio	
	30 June 2017	30 June 2016
Financials	29.22%	22.75%
Commercial Services and Supplies	24.89%	32.46%
Telecommunication Services	16.11%	14.94%
Materials	13.14%	2.52%
Media	11.21%	16.58%
Food and Beverage	2.73%	–
Consumer Durables	2.34%	–
Capital Goods	0.36%	–
Transportation	–	10.75%
	100.00%	100.00%

#### c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's major cash payments are the purchase of securities and dividends paid to shareholders, the levels of which are managed by the Board and the Investment Manager.

The Company's cash receipts depend upon the level of sales of securities, dividends and interest received.

The Investment Manager monitors the Company's cash flow requirements daily by reference to known sales and purchases of securities, dividends and interest to be paid or received. Should these decrease by a material amount, the Company can alter its cash outflows as appropriate. The assets of the Company are largely in the form of tradeable securities which (if liquidity is available) can be sold on the market if necessary.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from 30 June 2016 and 30 June 2017 to the contractual maturity date.

	30 June 2017			
	On demand \$	< 1 month \$	> 12 months \$	Total \$
Trade and other payables	–	858,428	–	858,428
<b>Total financial liabilities</b>	–	858,428	–	858,428

	30 June 2016			
	On demand \$	< 1 month \$	> 12 months \$	Total \$
Bank Overdraft	490,255	–	–	490,255
Trade and other payables	–	753,928	–	753,928
<b>Total financial liabilities</b>	490,255	753,928	–	1,244,183

The amounts in the table are the contractual undiscounted cash flows. Balances equal their carrying balances, as the impact of discounting is not significant.



#### d) Fair Value Hierarchy

AASB 7 ("Financial Instruments Disclosures") requires entities to provide disclosures in their financial report that enable users to evaluate the significance of financial instruments for the entity, and the nature and extent of risks arising from financial instruments to which the entity is exposed. Below is an analysis of the financial instruments of the Company.

##### Level 1:

Financial instruments are valued by reference to quoted prices in an active market(s) for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

##### Level 2:

Financial instruments are valued using inputs other than quoted prices covered in Level 1. These other inputs include quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The inputs included in this level encompass quoted prices in active markets for similar assets or liabilities, and quoted prices in markets in which there are few transactions for identical or similar assets or liabilities. Financial instruments that are valued using other inputs that are not quoted prices but are observable for the assets or liabilities also fall into this categorisation.

##### Level 3:

Financial instruments that have been valued, in whole or in part, by using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

Unobservable valuation inputs are determined based on the best information available, which might include the entity's own data, reflecting its assumptions as well as best practices carried out or undertaken by other market participants. These valuation techniques are used to the extent that observable inputs are not available.

The following table shows an analysis of financial instruments held at each reporting date, recorded at fair value and presented by level of the fair value hierarchy:

#### Financial Assets at Fair Value through Profit or Loss

	30 June 2017			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	75,135,224	–	–	75,135,224
Unlisted equities	–	1,550,010	–	1,550,010
<b>Total financial assets designated at fair value through profit or loss</b>	<b>75,135,224</b>	<b>1,550,010</b>	<b>–</b>	<b>76,685,234</b>
	30 June 2016			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	56,113,895	–	–	56,113,895
Convertible note	–	–	1,451,819	1,451,819
<b>Total financial assets designated at fair value through profit or loss</b>	<b>56,113,895</b>	<b>–</b>	<b>1,451,819</b>	<b>57,565,714</b>

The Company did not have any financial liabilities designated at fair value through profit or loss as at 30 June 2017 (2016: \$ nil).

During the year, the level 3 financial asset was converted to level 2. The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### d) Fair Value Hierarchy (continued)

##### Valuation techniques used to derive level 1, level 2 and level 3 fair values

###### Level 1

The fair value of financial instruments that are traded in an active market (for example, listed equities) is determined using the last traded quoted price in an active market. As at 30 June 2017 the Company had \$75,135,224 (2016: \$56,113,895) financial assets held at fair value through profit or loss included in level 1. As at 30 June 2017 the Company also had \$ nil (2016: \$ nil) financial liabilities held at fair value through profit or loss included in level 1.

###### Level 2

The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 30 June 2017 the Company had \$1,550,010 (2016: \$ nil) financial instruments in level 2.

###### Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 30 June 2017 the Company had \$nil (2016: \$1,451,819) financial assets held at fair value through profit or loss included in level 3.

In terms of the fair value hierarchy the convertible note is categorised as Level 3 given that it is not traded in an active market and is being measured using valuation techniques which include market data inputs that are not observable.

##### Valuation of Convertible Note as at 30 June 2017

All notes were converted resulting in a holding of 7,948,768 shares. Those shares were unlisted as at 30 June 2017. They were valued at their last trading price resulting in a valuation of \$1,550,010.

##### Valuation of Convertible Note as at 30 June 2016

The fair value of the holding in the secured convertible note is as follows: No interest is accrued on the note. However, the note receives a redemption premium of 15% per annum on the amount owing under each note. A note has the option of being converted into ordinary shares prior to maturity at 20 cents per share, based on the value of the note, inclusive of any redemption premium. For the purposes of producing a monthly NTA and the preparation of statutory financial reports, the Board resolved to calculate the value of the note based on the total value of the redemption premium and bid price on the last trading day of the shares. This is due to the illiquidity in the listed shares and a preference to price the note conservatively.

Differences may arise primarily due to short-term changes in the markets assessment of the credit risk of the underlying Company. The higher the value of underlying ordinary shares the higher would be the fair value of the convertible note.

##### Reconciliation level 3 fair values

Financial assets measured using significant unobservable inputs (Level 3) are shown below:

	Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
Opening balance	1,451,819	570,000
Conversion of Note	(1,550,010)	–
Unrealised gain on financial instruments held at fair value through profit or loss	98,191	881,819
Closing balance	–	1,451,819
Total accumulated losses on level 3 financial assets	(149,990)	(248,181)

#### e) Capital Management

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings as disclosed in notes 9 and 10 respectively. The Company is not subject to externally imposed capital requirements. The Company's objectives for managing capital are:

- to invest the capital in investments meeting the description, risk exposure and expected return indicated in the Company's prospectus;
- to achieve consistent returns while safeguarding capital by investing in a diversified portfolio, by using various investment strategies;
- to maintain sufficient liquidity to meet the ongoing expenses of the Company; and
- to maintain sufficient size to make the operation of the Company cost-efficient.

## 17. EARNINGS PER SHARE

	Year ended 30 June 2017 cents	Year ended 30 June 2016 cents
Basic and diluted earnings per share	9.47	17.19
	Units	Units
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	48,434,835	46,918,297
	\$	\$
Net profit used in the calculation of basic and diluted earnings per share	4,586,174	8,063,747

## 18. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies at 30 June 2017 (2016: \$ nil).

## 19. SUBSEQUENT EVENTS

On 24 August 2017, the Company declared a fully franked dividend of 3.5 cents per share.

Other than the matters described above, there has been no matter or circumstance occurring subsequent to the end of the period that has significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of NAOS Emerging Opportunities Company Limited, we declare that:

In the opinion of the Directors:

- the financial statements and notes are in accordance with the Corporations Act 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the financial year ended 30 June 2017;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1(c) to the financial statements;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the Directors have received the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to section 295 (5) of the Corporations Act 2001.

On behalf of the Board



Sebastian Evans

24 August 2017

## ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in the report.

### **INVESTMENT PORTFOLIO**

As at 30 June 2017 the Company held the following investments:

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Attila Resources Limited (now known as New Century Resources Limited)  
Big River Industries Limited  
Billabong International Limited  
Biotech Capital Limited  
BSA Limited  
CML Group Limited  
Consolidated Operations Group Limited  
Contango Asset Management Limited  
Enero Group Limited  
MNF Limited  
Saunders International Limited  
Wingara AG Limited

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During the financial year ended 30 June 2017, the Company had 897 transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2017 were \$296,913.

### **20 LARGEST SHAREHOLDERS**

Details of the 20 largest ordinary shareholders and their respective holdings as at 31 July 2017:

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees	4,344,238	7.34%
Myall Resources Pty Ltd	2,611,029	4.41%
Nivesa Pty Ltd	1,682,253	2.84%
Myall Resources Pty Ltd	1,229,588	2.08%
Jalinsons Pty Ltd	1,183,053	2.00%
NAOS Asset Management Limited	758,263	1.28%
Patagorang Superannuation	756,010	1.28%
Equitas Nominees Pty Ltd	613,526	1.04%
IR and JB Investments Pty Ltd	555,157	0.94%
Mr Donald Gordon Mackenzie & Mrs Gwenneth Edna Mackenzie	497,000	0.84%
Mr Mark John Bahen & Mrs Margaret Patricia Bahen	450,939	0.76%
Woodduck Pty Ltd	419,851	0.71%
Burtoh Ventures Pty Ltd	411,329	0.70%
Australian Executor Trustees Limited (No 1 Account)	392,621	0.66%
Gaseous Pty Ltd	361,400	0.61%
Mrs Philippa Blomfield	350,000	0.59%
Navigator Australia Ltd	320,033	0.54%
W W E Investments Pty Ltd	317,940	0.54%
Blu Bone Pty Ltd	276,999	0.47%
Tilt Consulting Pty Ltd	271,488	0.46%
<b>Total</b>	<b>17,802,717</b>	<b>30.09%</b>

## ADDITIONAL INFORMATION

Continued

### **SUBSTANTIAL SHAREHOLDERS**

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	4,344,238	7.34%

### **DISTRIBUTION OF ORDINARY SHARES**

Analysis of ordinary shares by size of shareholders as at 31 July 2017.

Category	Number of shareholders	Ordinary shares held	% of issued shares
1-1,000	132	74,774	0.13%
1,001-5,000	254	768,200	1.30%
5,001-10,000	263	2,055,166	3.47%
10,001-100,000	967	29,544,475	49.93%
100,001 and over	74	26,730,778	45.17%
Total	1,690	59,173,393	100.00%

### **VOTING RIGHTS**

All shareholders registered on the Company's share register have the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none).

### **ASX LISTING**

Quotation has been granted for all Ordinary Shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

### **BUY BACK**

Currently there is no intention to buy back any of the shares of the Company.

### **UNMARKETABLE PARCELS**

As at 31 July 2017, the number of shareholdings held in less than marketable parcels was 31.

### **UNQUOTED SECURITIES**

There are currently no unquoted securities on issue by the Company.

### **RESTRICTIONS ON SHARES**

There are currently no restrictions attached to the shares of the Company.

## CORPORATE INFORMATION

### **Directors**

David Rickards (Independent Chairman)  
Warwick Evans (Director)  
Sebastian Evans (Director)

### **Company Secretary**

Richard Preedy

### **Registered Office**

Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000  
Telephone: (02) 9002 1576  
Facsimile: (02) 8215 0037

### **Investment Manager**

NAOS Asset Management Limited  
Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000  
(Australian Financial Services Licence Number: 273529)  
Telephone: (02) 9002 1576  
Facsimile: (02) 8215 0037

### **Share Registry**

Boardroom Pty Limited  
Level 12, Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Telephone: 1300 737 760  
Facsimile: 1300 653 459

### **Auditor**

Deloitte Touche Tohmatsu  
Level 1, Grosvenor Place  
225 George Street  
Sydney NSW 2000

