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NAOS SMALL CAP OPPORTUNITIES  
COMPANY LIMITED

Annual Report 2018

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

NSC aims to provide investors with genuine, concentrated exposure to Australian undervalued listed small-cap companies (market capitalisation generally between \$100 million and \$1 billion) with an industrial focus.

## KEY METRICS AS AT 30 JUNE 2018

Profit for the Year	\$4.7 million
Pre-tax Net Tangible Assets	\$0.95
Post-tax Net Tangible Assets	\$0.92
Share Price	\$0.765
Fully Franked FY18 Dividend	5.5 cents
Shares on Issue	168,995,806
Directors' Shareholding	1,594,880
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.50
Market Capitalisation	\$129.3 million
NSC Investment Portfolio Performance*	-3.44% Inception (nom.)
Benchmark Performance (XSOAI)	+8.02% Inception (nom.)

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. Inception performance is from 1 December 2017.

## KEY DATES

### 2018 ANNUAL GENERAL MEETING

AGM to be held at 12:00pm (AEDT) on Thursday 15 November 2018 at Morgans, Level 21, Aurora Place 88 Philip Street, Sydney NSW 2000

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

The NAOS team will provide an update on our Listed Investment Companies (LICs). 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 at 10:30am before each presentation.

### BRISBANE Monday 3 September 2018

11:00am-12:30pm  
Customs House  
399 Queen Street  
Brisbane QLD 4000

### ADELAIDE Tuesday 4 September 2018

11:00am-12:30pm  
Pullman Adelaide  
16 Hindmarsh Square  
Adelaide SA 5000

### SYDNEY Thursday 6 September 2018

11:00am-12:30pm  
The Westin Sydney  
1 Martin Place  
Sydney NSW 2000

### CANBERRA Tuesday 11 September 2018

11:00am-12:30pm  
Hyatt Hotel Canberra  
120 Commonwealth Avenue  
Yarralumla ACT 2600

### MELBOURNE Wednesday 12 September 2018

11:00am-12:30pm  
The Westin Melbourne  
205 Collins Street  
Melbourne VIC 3000

### PERTH Thursday 13 September 2018

11:00am-12:30pm  
Parmelia Hilton Perth  
14 Mill Street  
Perth WA 6000



**SEBASTIAN EVANS**

**Director**

Sebastian Evans has been a Director of the Company since 20 October 2017. Sebastian is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and is Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager. Sebastian is the CIO across all investment strategies.

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 20 October 2017. Warwick is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

Warwick has over 35 years of equity markets experience, most notably as Managing Director for Macquarie Equities (Globally) from 1991 to 2001 as well as being an Executive Director for Macquarie Group. 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 Director**

David Rickards has been an Independent Director of the Company since 28 February 2018. David is also an Independent Director and Chairman of NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

David is Co-Founder of Social Enterprise Finance Australia (SEFA) and up until recently was a Director and Treasurer of Bush Heritage Australia.

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.

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).

**TREVOR CARROLL**

**Independent Chairman**

Trevor Carroll has been a Director of the Company since 27 March 2017 and was appointed Chairman on 26 October 2017.

Trevor was formerly Australian and New Zealand CEO of Electrolux Home Products. With over 30 years' experience in consumer-focused Product Strategy, Brand Marketing and Manufacturing, Trevor's experience extends to the membership of the Electrolux Global Product Council responsible for Product Development worldwide. Following retirement as CEO, Trevor undertook a role in Shanghai advising Electrolux China on Product Strategy. In recent years Trevor has been a Director of The Good Guys, Fusion Retail Brands, Big Sister Food Group and Crane Group. He is an emeritus member of the Australian Industry Group Board, where he was National President between 2006 and 2008. Trevor holds a Bachelor of Commerce from Canterbury University (NZ).

Dear Fellow Shareholders,

Welcome to the 2018 Annual Report for the NAOS Small Cap Opportunities Company Limited.

For the financial year ended 30 June 2018, the Company recorded an after-tax profit of \$4.7 million, which sees an increase in profit from the after-tax loss of \$13.9 million recorded in FY17. The Company declared dividends over this period totalling 5.50 cents per share which are fully franked. Pleasingly this is the first full year period that dividends have been fully franked since the 2011 financial year. Costs were also reduced in FY18, with a decrease in management fees to 1.15% and a 64% decrease in directors' remuneration.



During the year, shareholders appointed a new Investment Manager to manage the investment portfolio of the Company, being emerging companies specialist NAOS Asset Management Limited. Shareholders also approved the change of the name of the Company from Contango MicroCap Limited (ASX: CTN) to NAOS Small Cap Opportunities Company Limited (ASX: NSC).

The investment strategy of the Company has been amended with the change in Investment Manager with a core focus to provide superior long term risk adjusted returns compared to that of the wider market. The most significant changes include a concentrated portfolio structure, a focus of investing in industrial type companies (and not resources or early stage technology companies) and a long term investment philosophy that will generally lead to investments being held for three to five years with the added ability of being able to hold 100% cash in times when suitable investments are not able to be adequately sourced.

It is disappointing that during the year the share price has fallen and the discount to net tangible assets ('NTA') has widened. However the Board believes that a strategy focusing on a sustainable investment process, providing a growing stream of fully franked dividends, transparent and frequent communications plus aligning the Investment Manager and Board with all shareholders of the Company will provide satisfactory returns and NTA growth over the long term.

All Directors acquired shares in the Company over the financial year confirming their alignment with shareholders and supporting their view that this is an opportunity to purchase a concentrated portfolio of quality industrial small-cap companies with the potential to increase in value over time.

Directors now hold a cumulative 1.59 million shares.

It is important to note that following the appointment of the Investment Manager the Company did not issue any shares at a discount and the dividend reinvestment plan capital management initiative was completed through acquiring shares on-market which eliminated any dilution for existing shareholders.

Supporting the Board's strategy of paying fully franked dividends in future where possible, the franking account balance at year end was \$2.9m (FY17 \$0.3m). In addition, the Company was very pleased to announce a change to increase the frequency of dividend payments from bi-annually to quarterly for FY19 and beyond, creating an opportunity for shareholders to receive a more frequent income stream. We believe this will provide shareholders with a unique Listed Investment Company which is highly differentiated in the market not only by its investment strategy, but also by the frequency of its dividend payments.



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 shareholders for their continued support including 1,420 shareholders who joined as new shareholders throughout the financial year.

Trevor Carroll  
Independent Chairman  
23 August 2018



Dear Fellow Shareholders,

June 2018 brought with it the end of the first seven months NAOS has been managing the portfolio under the Company's new investment mandate. Over this period of time the investment portfolio returned -3.44%. The benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') produced a very strong return of +8.02% over the same period.

"In our view, we have in the portfolio a select group of quality industrial small cap businesses that are undervalued on a long term investment horizon."

Clearly the first seven months from a pure performance point of view has not met our internal expectations though it is important to note that from the point of view of our investment philosophy very few investments prove to be successful within the first seven months following an initial investment being made.

We are however very satisfied with the quality of the portfolio we have been able to form since being appointed as Investment Manager. In our view, we have in the portfolio a select group of quality industrial small cap businesses that are undervalued on a long term investment horizon. In addition, these businesses are represented by balance sheet and cash flow attributes which support the protection of capital for NSC shareholders over the longer term.

The NAOS investment process has a number of key features which we believe will help to drive investment portfolio returns over the longer term. Core to our investment process and setting us apart from many of our peers is our concentrated portfolio structure. We believe in focusing on the quality and not the quantity of the businesses we invest in. Using this as a foundation, we then look at our investments with a long term investment horizon. In our view, undervalued businesses providing long-term sustainable growth are hard to find, so when we do find one we believe the best course of action is to allow returns to compound over the long-term rather than chopping and changing holdings to look for the next best investment.

The nature of running a concentrated portfolio results in investment holdings being very different to the benchmark or index holdings, and as such they can provide investment performance very different to that of the benchmark or index. Therefore it is not unusual for a concentrated portfolio to go through

periods of significant underperformance as well as significant outperformance to that of the wider market.

Further to our investment process, and in order to reduce the risk of permanent capital loss, we focus on businesses operating within industrial sectors which have a sufficient revenue base to build and maintain a sustainable business over the long term. It is not uncommon for these businesses to need many years of reinvestment in people, systems, marketing, distribution and product in order to build a growing, sustainable business for the long term. Going through such a process can have a potentially significant effect on profitability in the short term and is often a misleading indicator as to how the underlying business is progressing. This can provide us with an opportune time to invest as we wait for these changes to be reflected in increased profitability.

Reviewing factors excluding share prices for each of the NSC holdings, having followed many of these businesses and their management teams for five years or more, we believe many of our investments have made significant progress this year which has not yet been appreciated by the wider market.

Finally, I believe it is important to highlight that the focus for many investors in equity markets both domestically and globally has been very much on returns, but we believe over the next 12 to 24 months the focus will move back to risk and return as we enter the new financial year with an economic backdrop that is potentially much more precarious in some key global markets. This is due to higher interest rate levels, the potential for an increase in inflation, and finally Government balance sheets that are running at high levels of debt at potentially the wrong time in the cycle.

“The nature of running a concentrated portfolio results in investment holdings being very different to the benchmark or index holdings, and as such they can provide investment performance very different to that of the benchmark or index.”

### MOMENTUM VS VALUE – INDUSTRIALS VS NATURAL RESOURCES

Without a doubt the key topic for many investors both domestically and globally over the course of FY18 has been the significant underperformance of perceived value companies relative to companies that have generated significant earnings growth or even just expected to produce significant earnings growth over the short term.

NAOS generally only invests in a business because we believe the earnings today are not a fair reflection of what the same business will earn in five years’ time. Ultimately, this earnings growth can be driven by many factors including revenue growth, margin growth, cost cutting, acquisitions and even share buybacks. The desired result is earnings growth over a long-term investment horizon, even if the business was perceived to be a value type business at the time of the initial investment. Therefore, we do not differentiate between value and growth businesses as ultimately earnings growth is what will drive share prices higher over the long term. What we do differentiate businesses on is the margin of safety each investment has i.e. what is the potential for significant permanent capital loss for a potential investor.

When reviewing the performance of the ASX 200, the stocks with the highest forecast earnings per share (EPS) growth over the past 12 months returned an average of +9.1%. When comparing this to the companies with the highest free cash flow (FCF) yields (i.e. the

best value regarding FCF) these stocks within the ASX 200 returned an average of just +1.2%.

When we dig a little deeper and review the sector performance within the ASX 200 we can see what has really driven the divergence in performance. It is clear that as commodity prices have increased this has driven earnings growth within the energy, metals and mining, and gold sectors which have returned gains of +24.1%, +24.2% and +13.3% respectively for FY18. Comparing this to the performance of other sectors including cyclicals, banks, non-bank financials and REITs, not one of these sectors returned anything more than +0.3% and in the case of the banks they returned far worse, with a –13.2% return for the financial year.

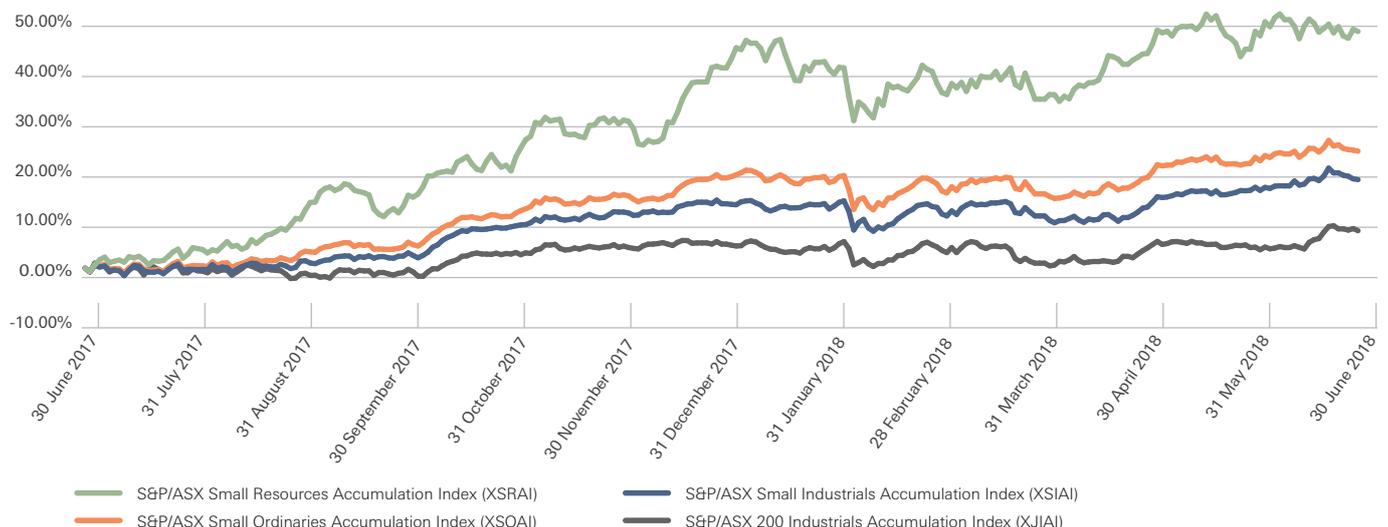
Core to the NAOS investment philosophy is that we will only invest in businesses where we believe we can understand the inputs that drive the long-term valuation and then forecast these inputs over many years to understand what the fair value of a business should be. This is where we believe we can add value for our shareholders and gain a competitive advantage. Investing in businesses that are highly correlated to movements in commodity prices not only fails our ESG requirements, but we do not believe we have any competitive advantage in accurately forecasting commodity prices over the short or long-term. It is also important to note that many miners, apart from the likes of BHP and Rio Tinto, often have a high fixed cost base which in turn gives them significant earnings leverage to any upward or downward movement

in commodity prices. This can produce significant gains when commodity prices are in an uptrend; but when the tide turns this can often result in sharp share price falls and situations that lead to permanent capital loss as these businesses cannot react to lower their cost base in a manner that allows them to produce these metals and minerals at a level that delivers positive free cash flow.

In support of investing in industrial businesses, when reviewing the previous 10 years of cumulative returns of businesses in the ASX 300 we can see that industrials have outperformed resources by a factor of 2.5, even after their significant underperformance in 2018.

The S&P/ASX Small Industrials Accumulation Index posted an FY18 gain of +18.3%, and within this 12 out of the 159 constituents registered share price appreciation of greater than +100% for the financial year. Of these 12, five of these businesses were technology companies, two of these were mining services and one was heavily reliant on its exporting business to China. This leaves four true industrial businesses which were affordable fashion accessory retailer Lovisa (ASX: LOV), US-based fund of funds manager Navigator Global Investments (ASX: NGL), education provider IPP Education (ASX: IEL) and fund administrator Bravura Solutions (ASX: BVA). We continually review our investment process to understand why investments such as these were overlooked and to ensure that we capitalise on such opportunities provided our long term investment valuation hurdles are met.

### 1 YEAR TOTAL RETURN



“MNF first listed on the ASX in 2006 with a market capitalisation of less than \$20 million, and today it has a market capitalisation of roughly \$400 million.”

#### LOOKING FORWARD

The NSC investment portfolio as at the end of the financial year held 11 core investments with a cash weighting of just under 10%. Going forward it may well be the case that no new investments are added or removed over the next 12 months. This has been the case from time to time with the investment portfolios of the other Listed Investment Companies (LICs) that NAOS is also the Investment Manager of, and reflects our belief in a high conviction, long term investment horizon.

To allow our shareholders to gain a better understanding of a typical NAOS investment, the following summary highlights one of NSC's core holdings, and our rationale as to why we believe it is an excellent long term investment.

#### MNF GROUP (ASX: MNF)

MNF is a global provider of telecommunications software and services which first listed on the ASX in 2006 with a market capitalisation of less than \$20 million, and today it has a market capitalisation of roughly \$400 million. CEO Rene Sugo is one of the co-founders of the business, and he also holds over 16% of the shares on issue. More importantly, Rene is an engineer by training who possesses an intimate understanding of the technological infrastructure that drives MNF, what his customers require, and how MNF can meet these needs from a technological perspective. We believe that MNF will continue to be a large beneficiary of the continued use of voice requirements for many types of new technologies including Skype for Business, Twilio Flex and Amazon Chime that may still require a cloud-based telephone number that can run over digital telecommunications networks such as the one that MNF operates globally. MNF has a history of developing unique services for its clients such as toll fraud protection software, a true softswitch product, and finally a cloud-based enterprise level call management solution. What sets MNF apart from its peers is the ability to develop such software and services internally, as it employs approximately 200 Australian engineers in-house. This valuable resource allows it to be nimble and responsive to its customers' needs which is critical in a sector which has been renowned for lack of investment and poor customer experience.

Over the next 12 months we will be looking for MNF to update the market on a number of areas including, firstly, a resolution on its Pennytel investment, either through a successful implementation of the business plan or a closure of the business unit. Secondly, an update on the sales progression within the global wholesale business, and associated commentary around the successful acquisition of large multinational clients to MNF wholesale software services. Finally, we will expect an update on the potential for further acquisitions as we would expect MNF to enter FY19 with a net cash balance sheet and substantial cash flow generation from its operating business. We believe the market continues to underappreciate the capabilities of MNF, its recurring revenue profile, and its diversified customer base both domestically and globally; including a number of large multinational technology companies.

To conclude, I would like to thank all NSC shareholders for their patience and support over the recent months. I appreciate some shareholders may be somewhat circumspect of NAOS and our investment style; however we will endeavour to apply the investment process which has produced sound long-term performance in our other two LICs.

I look forward to updating you on the performance of the portfolio at our upcoming national bi-annual investor roadshows to be held in early September.

As always, myself and the entire team appreciate any feedback from our shareholders, so please do not hesitate to contact any member of the NAOS team with any comments you may have.

Thank you for allowing us to invest with your capital. We appreciate your continued support and value the responsibility that you have placed in us.



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

NAOS ASSET MANAGEMENT is a specialist fund manager providing genuine, concentrated exposure to Australian listed industrial companies outside of the ASX 50.

With a proven performance track record, NAOS maintains a focus on protecting capital and aims to deliver shareholders a sustainable growing stream of fully franked dividends, whilst providing capital growth over the longer term.

### OUR INVESTMENT BELIEFS



#### VALUE WITH LONG-TERM GROWTH

We believe in investing in businesses where the earnings today are not a fair reflection of what the same business will earn over the longer term. Ultimately, this earnings growth can be driven by many factors including revenue growth, margin growth, cost cutting, acquisitions and even share buybacks. The end result is earnings growth over a long-term investment horizon even if the business was perceived to be a value type business at the time of the initial investment.



#### 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 to 30.



#### 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 long-term. If our investment thesis holds true we persist. Many of our core investments have been held for three or more years where management execution has been consistent and the value proposition is still apparent.



#### MANAGEMENT ALIGNMENT

We believe in backing people who are proven and aligned with their shareholders. 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 with 'skin in the game'. NAOS Directors and staff members are significant holders of shares on issue across our strategies, so the interests of our shareholders are well aligned with our own.



#### IGNORE THE INDEX

This means we are not forced holders of stocks with large index weightings that we are not convinced are attractive investment propositions. 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 the big four banks making up a large portion of total domestic equity holdings for the SMSF investor group, many Australian investors are at risk of being overexposed to one sector and may be missing out on opportunities to invest in quality companies in industries such as Media, Advertising, Agriculture or Building Materials. Australian listed industrial companies outside the ASX 50 are our core focus, and we believe the LICs we manage provide pure access to these companies which may be lesser known by the broader investment community.



#### PERFORMANCE VS LIQUIDITY FOCUS

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 to act based purely on the long-term value proposition where the majority may lose patience and move on. Often illiquidity is caused by aligned founders or management having significant holdings in a company. NAOS benefits from a closed-end LIC structure, which means we do not suffer 'redemption risk' and we can focus on finding quality undervalued businesses regardless of their liquidity profile.

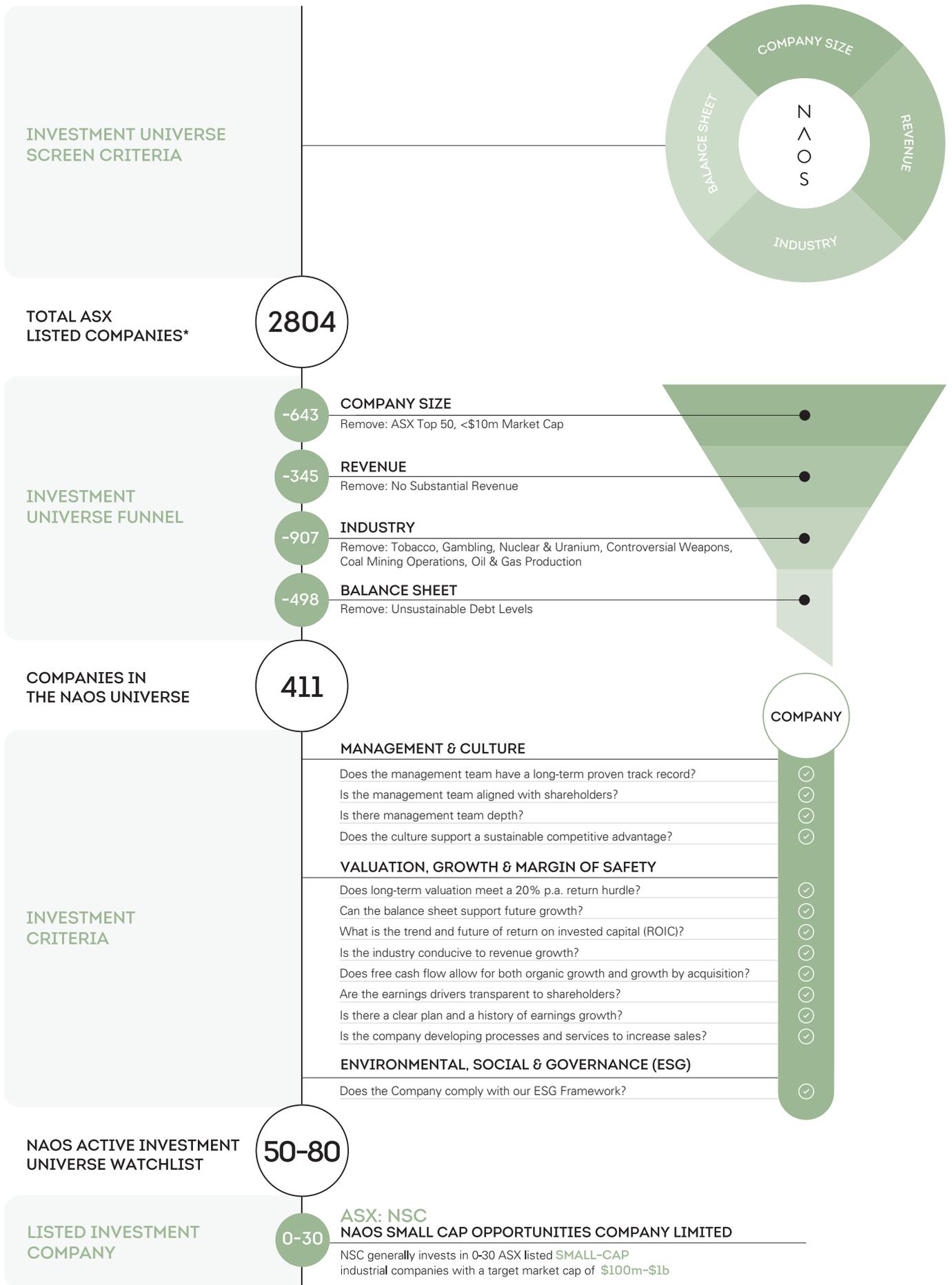


#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy. NAOS supports the UN Principles for Responsible Investment and is guided by these principles in incorporating ESG into our investment practices.

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

OUR INVESTMENT PROCESS



\* Source: Bloomberg Data June 2018

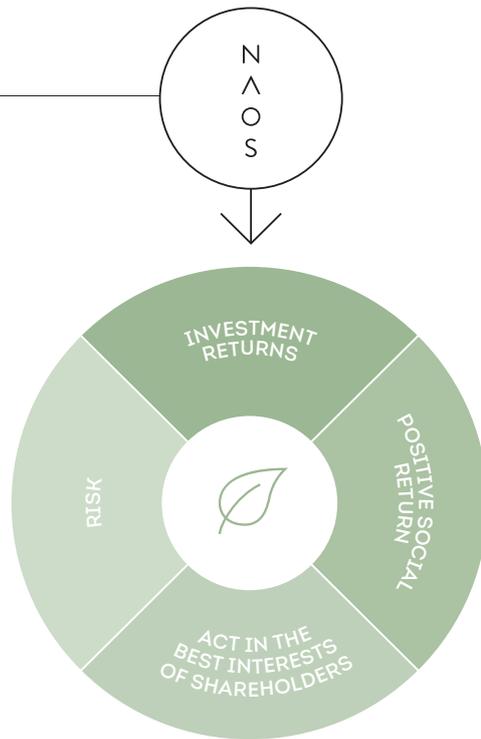
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## OUR COMMITMENT TO RESPONSIBLE INVESTMENT

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy.

We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

NAOS supports the UN Principles for Responsible Investment and is guided by these principles in incorporating ESG into our investment practices.



# 02

## NEGATIVE SCREENS

NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



**TOBACCO**



**GAMBLING**



**NUCLEAR & URANIUM**



**CONTROVERSIAL WEAPONS**



**COAL MINING OPERATIONS, OIL & GAS PRODUCTION**



# 03

## ESG FRAMEWORK

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.



### ENVIRONMENTAL

- Water
- Waste
- Pollution
- Biodiversity
- Deforestation
- Climate Change
- Reporting on Violations
- Greenhouse Gas Emissions
- Environmental Opportunities



### SOCIAL

- Training
- Supply Chain
- Social License
- Human Rights
- Labour Standards
- Community Relations
- Human Capital Policy
- Employee Engagement
- Workplace Health & Safety



### GOVERNANCE

- Board Quality
- Board Diversity
- Codes of Conduct
- Risk Management
- Incentive Structures
- Board Independence
- Shareholder Voting Rights
- Shareholder Concentration
- Anti-Bribery and Corruption Policy
- CEO and Executive Remuneration



# 04

## THE INCORPORATION OF ESG

The incorporation of ESG considerations into the investment process applies across all NAOS investments, and involves regular discussions and engagement with companies over material ESG issues.

NAOS supports the adoption of a responsible investment strategy, and is committed to ensuring that this is an integral part of the NAOS investment process.

## 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 been working in the financial markets since February 2006 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.



**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.



**RACHEL  
FOLDER**

**Investment Analyst**

Rachel joined NAOS in April 2018 as an Investment Analyst.

Prior to joining NAOS, Rachel was an Investment Analyst at Colonial First State Global Asset Management, and has previously completed the two-year graduate program.

Rachel graduated from the University of New South Wales with a Bachelor of Commerce, majoring in Actuarial Studies and Financial Economics.



**CHADD  
KNIGHTS**

**Investment 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.



**RICHARD  
PREEDY**

**Chief Financial and  
Operating Officer**

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 12 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.



**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 New South Wales and the High Court of Australia.



**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 four 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.



**SCOTT  
HILDEBRAND**

**Distribution and  
Sales Manager**

Scott joined NAOS in January 2018.

Scott has over 10 years' experience in investment markets. In this time Scott has gained experience across a variety of roles including research and sales trading, hedge fund sales and derivative sales. Scott was previously an Institutional Dealer at Blue Ocean Equities and the Head of Sales and Trading for CCZ Equities.

### **CORPORATE GOVERNANCE**

The Board of NAOS Small Cap Opportunities Company Limited is 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)).

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## DIRECTORS' REPORT

The directors present their report together with the financial report of the Company consisting of NAOS Small Cap Opportunities Company Limited and controlled entities (formerly Contango MicroCap Limited and controlled entities) for the financial year ended 30 June 2018 and the auditor's report thereon. This report has been prepared in accordance with the Australian Accounting Standards.

### COMPANY INFORMATION

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Securities Exchange ("ASX"). Since 20 October 2017, the Company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services Licence Number 273529) (the "Investment Manager"). Prior to 20 October 2017, the Investment Manager of the Company was Contango Funds Management Limited (ACN 085 487 421) (the "Former Investment Manager").

### PRINCIPAL ACTIVITIES

The Company invests primarily in a concentrated portfolio of small-cap listed equities that are not included in the S&P/ASX 100 Accumulation Index with the objective of providing investors with genuine exposure to small-cap companies, with a long-term value focus. The Company can invest in unlisted instruments from time to time.

### DIRECTORS AND OFFICERS

The following persons held office as directors of the Company during or since the end of the year:

Name	Appointment Date	Period of Office
Mr Trevor Carroll (Chairman)	27 March 2017	1 July 2017 – present
Mr Sebastian Evans	20 October 2017	20 October 2017 – present
Mr Warwick Evans	20 October 2017	20 October 2017 – present
Mr David Rickards	28 February 2018	28 February 2018 – present
Mr Mark Kerr	7 December 2009	1 July 2017 – 13 October 2017
Mr Alistair Drummond	29 July 2016	1 July 2017 – 20 October 2017
Mr Ken Poutakidis	27 March 2017	1 July 2017 – 31 January 2018
Mr Adrian Fitzpatrick	11 July 2017	11 July 2017 – 28 February 2018

The qualifications and experience of each person who has been a director or company secretary of the Company at any time since 1 July 2017 are provided below.

### CURRENT DIRECTORS AND COMPANY SECRETARY INFORMATION

#### **Trevor Carroll, Chairman**

Trevor has been a director of the Company since 27 March 2017 and was appointed Chairman on 26 October 2017.

Trevor was formerly Australian/New Zealand CEO of Electrolux Home Products. With over 30 years of experience in consumer-focused product strategy, brand marketing and manufacturing, Trevor's experience extends to the membership of the Electrolux Global Product Council responsible for product development worldwide. Following retirement as CEO, Trevor undertook a role in Shanghai advising Electrolux China on product strategy. In recent years, Trevor has been a director of The Good Guys, Fusion Retail Brands, Big Sister Food Group and Crane Group.

He is an emeritus member of the Australian Industry Group board, where he was the national president between 2006 and 2008.

Trevor holds a Bachelor of Commerce from Canterbury University (NZ).

#### **David Rickards, Non-executive director**

David Rickards has been an Independent Director of the Company since 28 February 2018. David is also an Independent Director and Chairman of NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

David is Co-Founder of Social Enterprise Finance Australia (SEFA) and up until recently was a Director and Treasurer of Bush Heritage Australia.

David has over 28 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.

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).

Continued

### CURRENT DIRECTORS AND COMPANY SECRETARY INFORMATION (CONTINUED)

#### **Warwick Evans, Non-executive director**

Warwick has been a director of the Company since 20 October 2017.

Warwick has over 38 years of equity markets experience, most notably as managing director for Macquarie Equities (Globally) from 1991-2001 as well as being an executive director of Macquarie Group. He is a director of NAOS Emerging Opportunities Company Limited and NAOS Ex-50 Opportunities Company Limited, Chairman of NAOS Asset Management Limited and he was also the founding Chairman and CEO of the Newcastle Stock Exchange ("NSX"). He 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.

#### **Sebastian Evans, Non-executive director**

Sebastian Evans has been a director of the Company since 20 October 2017.

Sebastian is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and is Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager. Sebastian is the CIO across all investment strategies.

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.

#### **Rajiv Sharma, Company secretary**

Rajiv was appointed as company secretary of the Company on 20 October 2017.

Rajiv is Senior Legal Counsel at NAOS Asset Management Limited. Previously, he was Senior Legal Counsel at Magellan Financial Group and has also worked at law firms Johnson Winter & Slattery and Clayton Utz. He 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.

Rajiv is a member of the Law Society of New South Wales and admitted to the Supreme Court of NSW and the High Court of Australia. He is also an Associate of the Governance Institute of Australia.

### FORMER DIRECTORS AND COMPANY SECRETARY INFORMATION

#### **Mark Kerr, Chairman**

Mark was the chairman of the Company during the financial year from 1 July 2017 to 13 October 2017.

He is an experienced director whose other roles include Non-Executive Chairman of two other ASX listed companies, Hawthorn Resources Limited and Think Childcare Limited, and a non-executive director of ASX listed Alice Queen Limited and Contango Income Generator Limited.

Mark is a director of Berkeley Consultants Pty Ltd which specialises in public relations and reputation management consultancy. He is also a director and adviser to various other private companies. Mark's community involvement currently extends to being a member of the Victorian Committee of the Juvenile Diabetes Research Foundation and a member of the St Vincent's Institute Charity Golf Day Committee.

#### **Alistair Drummond, Non-executive director**

Alistair was a director of the Company during the financial year from 1 July 2017 to 20 October 2017.

Alistair has over 30 years' experience in the financial services industry. During this time he has had various roles in investment banking and corporate advisory, has been a senior portfolio manager at several organisations and was an executive director in a large stockbroker.

Alistair was formerly Head of Melbourne Equity Sales at JP Morgan and a senior portfolio manager at National Australia Asset Management and National Australia Fund Management and has worked in a variety of investment banking roles for National Australia Corporate Advisory, Morgan Grenfell Australia and JP Morgan.

### **Ken Poutakidis, Non-executive director**

Ken was a director of the Company during the financial year from 1 July 2017 to 31 January 2018.

Ken is a corporate advisor and corporate finance executive with more than 17 years' experience focusing in particular on small cap entities. He is presently managing director and founder of Avenue Advisory, a boutique advisory firm providing corporate finance and capital markets advice to emerging companies.

Previously Ken worked as a management consultant and a corporate finance executive with leading equity firms across Australia and Asia. His particular expertise includes capital raisings, mergers & acquisition, corporate advisory, asset divestment and strategy development, with sectoral expertise in healthcare, industrials, engineering and financial services. He has also previously served as Chairman of the boards of Alchemia and Mach7 Technologies. Ken has a Bachelor of Business degree from Monash University.

### **Adrian Fitzpatrick, Non-executive director**

Adrian was a director of the Company during the financial year from 11 July 2017 to 28 February 2018.

Adrian retired from Pitcher Partners on 30 June 2016 after 39 years in professional practice, including as a partner of Pitcher Partners and predecessor firms. During his many years in senior partnership roles at Pitcher Partners, Adrian's responsibilities included Chair of Risk Committee, Member of Investment Committee, Human Resources responsible partner, Deputy Managing Partner and Partner in Charge of Business Advisory and Assurance.

Adrian is a non-executive director of ASX 200 listed entity, ARB Corporation Limited. He also is an advisor to other private boards and a board member of two community based not-for-profit organisations.

### **Hari Morfis, Company secretary**

Hari was company secretary of the Company during the financial year from 1 July 2017 to 29 November 2017.

Hari is a legal, risk and governance professional with over 15 years' experience predominantly in financial services. She has extensive corporate and commercial experience having commenced her career as a corporate lawyer at Herbert Smith Freehills. She spent 11 years at UBS in senior legal, risk and compliance roles most recently as Head of Compliance for the UBS Wealth Management Australia business. She is a director of Melbourne Women in Film Festival Limited and Company Secretary of ASX Listed entities Contango Asset Management Limited, Contango Income Generator Limited and Contango Global Growth Limited.

## **MEETINGS OF DIRECTORS**

	Year ended 30 June 2018	
	Eligible to attend	Attended
Mr Trevor Carroll	11	11
Mr Sebastian Evans	8	8
Mr Warwick Evans	8	8
Mr David Rickards	4	4
Mr Mark Kerr	2	2
Mr Alistair Drummond	3	3
Mr Ken Poutakidis	6	6
Mr Adrian Fitzpatrick	7	7

## DIRECTORS' REPORT

Continued

### REVIEW OF OPERATIONS

#### Results

The results of the operations of the Company are disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income included in these consolidated financial statements. The results and dividends for the year ended 30 June 2018 and 30 June 2017 were as follows:

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Profit/(loss) before income tax expense	2,689	(20,572)
Income tax benefit	2,055	6,678
<b>Profit/(loss) for the year attributable to shareholders</b>	<b>4,744</b>	<b>(13,894)</b>

#### DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount \$'000	% Franked	Date of payment
2017 Final dividend (declared on 29 August 2017)	3.90	6,545	50%	13 October 2017
2018 Interim dividend (declared on 16 February 2018)	2.50	4,224	100%	29 March 2018

Year ended 30 June 2017	Dividend rate (cents per share)	Total amount \$'000	% Franked	Date of payment
2016 Final dividend (declared on 29 August 2016)	3.70	6,002	50%	14 October 2016
2017 Interim dividend (declared on 10 February 2017)	2.70	4,527	50%	24 March 2017

Since 30 June 2018, the Board has declared a final dividend of 3.0 cents per share, fully franked, to be paid on 19 September 2018.

#### FINANCIAL POSITION

The net tangible assets of the Company as at 30 June 2018 were \$155,341,583 (2017: \$160,755,530). Further information on the financial position of the Company is included in the Chairman's letter.

#### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 20 October 2017, Contango Asset Management Limited, via its subsidiary Contango Funds Management Limited (the "Former Investment Manager"), entered into an agreement to assign its investment management agreement of Contango MicroCap Limited (ASX: CTN) to the Investment Manager.

At the Annual General Meeting on 28 November 2017, shareholders approved the termination of the existing investment management agreement and the entering into a new investment management agreement with the Investment Manager.

A special resolution was also passed at the Annual General Meeting on 28 November 2017 changing the Company's name from Contango MicroCap Limited to NAOS Small Cap Opportunities Company Limited. The Company also applied to the ASX to change its listing code from "CTN" to "NSC", and this was made effective on 1 December 2017.

Other than the above, there were no other significant changes in the state of affairs of the Company.

#### SUBSEQUENT EVENTS

On 23 August 2018, the Company has declared a fully franked dividend of 3.0 cents per share, payable on 19 September 2018.

Other than the above, there has been no other 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.

## ROUNDING

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company.

## NON-AUDIT SERVICES

Non-audit services are approved by the Board. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standards of independence for auditors imposed by the *Corporations Act 2001*.

Refer to Note 15 for details of auditor's 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 21.

## DIRECTORS' REPORT

Continued

### REMUNERATION REPORT (AUDITED)

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).

The Board from time to time determines remuneration of 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. The maximum amount is currently \$750,000 (including superannuation contributions) as approved by shareholders at the 2013 AGM.

Directors' remuneration received for the year ended 30 June 2018 and 30 June 2017 is disclosed below. The Company reduced the fees payable to its directors during the year ended 30 June 2018, inclusive of superannuation contributions.

	Short-term employee benefits Directors' Fees (\$)	Post- employment benefit Superannuation (\$)	Total (\$)
<b>30 June 2018</b>			
Mr Trevor Carroll	28,919	2,747	31,666
Mr Warwick Evans	15,896	1,510	17,406
Mr David Rickards	7,610	723	8,333
Mr Mark Kerr	15,982	1,518	17,500
Mr Ken Poutakidis	15,982	1,518	17,500
Mr Adrian Fitzpatrick	17,504	1,663	19,167
Mr Alistair Drummond	–	–	–
Mr Sebastian Evans	–	–	–
<b>Total</b>	<b>101,893</b>	<b>9,679</b>	<b>111,572</b>

	Short-term employee benefits Directors' Fees (\$)	Post- employment benefit Superannuation (\$)	Total (\$)
<b>30 June 2017</b>			
Mr Trevor Carroll	6,849	651	7,500
Mr Ian Ferres	52,500	4,988	57,488
Mr David Stevens	50,000	4,750	54,750
Mr Glenn Fowles	47,500	4,512	52,012
Mr Mark Kerr	122,000	8,550	130,550
Mr Ken Poutakidis	6,849	651	7,500
Mr Alistair Drummond	–	–	–
<b>Total</b>	<b>285,698</b>	<b>24,102</b>	<b>309,800</b>

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

## INTERESTS IN SHARES AND CONVERTIBLE NOTES OF THE COMPANY

Directors' relevant interests in ordinary shares and convertible notes of NAOS Small Cap Opportunities Company Limited are detailed below as at 30 June 2018. There have been no changes since this date to the date of this report.

Ordinary shares Year ended 30 June 2018	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll	–	157,755	–	157,755
Mr Sebastian Evans	–	859,500	–	859,500
Mr Warwick Evans	–	302,789	–	302,789
Mr David Rickards	–	274,836	–	274,836
Mr Mark Kerr	59,076	2,560	–	61,636*
Mr Alistair Drummond	–	–	–	_**
Mr Ken Poutakidis	–	–	–	_***
Mr Adrian Fitzpatrick	–	–	–	_****

Convertible Notes Year ended 30 June 2018	Opening balance No of notes	Acquired No of notes	Sold No of notes	Closing balance No of notes
Mr Trevor Carroll	–	–	–	–
Mr Sebastian Evans	–	–	–	–
Mr Warwick Evans	–	–	–	–
Mr David Rickards	–	–	–	–
Mr Mark Kerr	296	–	–	296*
Mr Alistair Drummond	–	–	–	_**
Mr Ken Poutakidis	–	–	–	_***
Mr Adrian Fitzpatrick	–	–	–	_****

\*Holdings as at 13 October 2017, being the date of cessation as a director.

\*\*Holdings as at 20 October 2017, being the date of cessation as a director.

\*\*\*Holdings as at 31 January 2018, being the date of cessation as a director.

\*\*\*\*Holdings as at 28 February 2018, being the date of cessation as a director.

## DIRECTORS' REPORT

Continued

### CONSEQUENCES OF COMPANY'S PERFORMANCE ON SHAREHOLDER WEALTH

The following table summarises Company performance and key performance indicators:

	2018	2017	2016	2015	2014
Revenue (\$'000)	9,551	(12,346)	30,266	2,535	49,254
% increase in revenue	177.4	-140.8	1,093.9	-94.9	803.8
Profit before tax (\$'000)	4,744	(13,894)	23,054	(3,964)	41,631
% increase in profit before tax	134.1	-160.3	681.6	-109.5	427.8
Change in share price (%)	-15.0	-10.0	-7.0	4.9	4.6
Dividend paid to shareholders (\$'000)	10,769	10,529	10,109	13,607	12,278
Return of capital (\$'000)	–	–	–	–	–
Total remuneration of KMP	111,572	309,800	1,572,883	1,254,300	877,875
Total performance based remuneration	–	–	300,000	50,000	–

End of Remuneration Report (Audited)

Signed in accordance with a resolution of directors of the Company made pursuant to Section 306(3) of the *Corporations Act 2001*.



Sebastian Evans

Director

23 August 2018



**NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**

In relation to the independent audit for the year ended 30 June 2018, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of NAOS Small Cap Opportunities Company Limited and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read 'B J Britten', with a horizontal line extending to the right.

**B J BRITTEN**  
Partner

23 August 2018

**PITCHER PARTNERS**  
Melbourne



**NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED  
107 617 381**

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of NAOS Small Cap Opportunities Company Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) 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 Group 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 the 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 of 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.

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED  
107 617 381



INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

Key Audit Matter	How our audit addressed the key audit matter
Fair value loss on financial assets through profit and loss <i>Refer Note 17</i>	
Revenue recognition in relation to the fair value loss on financial assets through profit and loss is calculated with reference to the fair value of investments at balance date. Investments measured at their fair value at each reporting date with any increment or decrement in fair value from the prior period being recognised as fair value gain/loss on financial assets through profit and loss.  We focused on this area as a key audit matter due to the significance of fair value gain on financial assets through profit and loss on both profit/loss and the valuation of the investment portfolio at balance date.	Our procedures included, amongst other things: <ul style="list-style-type: none"><li>• Understanding the key controls within the process for recording fair value gains/losses on financial assets through profit and loss;</li><li>• Performing a reconciliation of the fair value gains/losses on financial assets through profit and loss for the year ended 30 June 2018;</li><li>• Evaluating the GS007 report on internal controls for Unity Fund Services Pty Limited as obtained from NAOS Asset Management (the Investment Manager);</li><li>• Evaluation of the GS007 report on internal controls for the Company's custodian, Asset Servicing - National Australia Bank Limited</li></ul>

*Other Information – The annual report is not complete at the date of the audit report*

The directors are responsible for the other information. The other information comprises the directors' report which was obtained as at the date of our audit report, and any additional other information included in the Company's annual report for the year ended 30 June 2018, 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 accordingly 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.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action to take.



**NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED  
107 617 381**

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**

*Responsibilities of the Directors for the Financial Report*

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

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

*Auditor's Responsibilities 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 Group'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 Group'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 Group to cease to continue as a going concern.

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED  
107 617 381

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 18 to 20 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of NAOS Small Cap Opportunities Company Limited, for the year ended 30 June 2018, 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.



B J BRITTEN  
Partner  
23 August 2018

PITCHER PARTNERS  
Melbourne

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<b>Income</b>	3	9,551	(12,346)
<b>Expenses</b>			
Management fees		(2,274)	(3,494)
Transaction costs		(1,815)	(1,175)
Interest expense		(1,458)	(1,459)
Listing, custody and registry costs		(434)	(447)
Legal, accounting and professional costs		(133)	(646)
Amortisation costs	10	(118)	(118)
Directors' remuneration expense		(112)	(310)
Other expenses		(518)	(577)
<b>Profit/(Loss) before income tax expense</b>		<b>2,689</b>	<b>(20,572)</b>
Income tax benefit	4	2,055	6,678
<b>Profit/(Loss) for the year attributable to shareholders of the Company</b>		<b>4,744</b>	<b>(13,894)</b>
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year attributable to shareholders of the Company</b>		<b>4,744</b>	<b>(13,894)</b>
<b>Basic and diluted earnings per share (cents per share)</b>	18	<b>2.8</b>	<b>(8.4)</b>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2018**

	Note	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	16	15,455	26,647
Other financial assets	8	4	4
Prepayments		57	–
Receivables	7	1,024	1,501
Financial assets at fair value through profit or loss	6	172,343	170,991
<b>Total current assets</b>		<b>188,883</b>	<b>199,143</b>
<b>Non-current assets</b>			
Other financial assets	8	47	51
Deferred tax assets	4	340	442
<b>Total non-current assets</b>		<b>387</b>	<b>493</b>
<b>Total assets</b>		<b>189,270</b>	<b>199,636</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Provision for income tax	4	3,880	1,778
Payables	9	1,874	2,226
<b>Total current liabilities</b>		<b>5,754</b>	<b>4,004</b>
<b>Non-current liabilities</b>			
Payables	9	574	776
Borrowings	10	26,292	26,174
Deferred tax liabilities	4	1,308	7,927
<b>Total non-current liabilities</b>		<b>28,174</b>	<b>34,877</b>
<b>Total liabilities</b>		<b>33,928</b>	<b>38,881</b>
<b>Net assets</b>		<b>155,342</b>	<b>160,755</b>
<b>Equity</b>			
Issued capital	11	201,504	200,892
Accumulated losses	12	(64,754)	(60,195)
Reserves	12	18,592	20,058
<b>Total equity</b>		<b>155,342</b>	<b>160,755</b>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Issued Capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000
Balance at 1 July 2016		194,178	13,896	(29,610)	178,464
Loss for the year		–	–	(13,894)	(13,894)
Transfer to profits reserve		–	16,691	(16,691)	–
Dividends paid		–	(10,529)	–	(10,529)
Shares issued under Dividend Re-investment Plan		1,940	–	–	1,940
Issue of shares		4,759	–	–	4,759
Options exercised		200	–	–	200
Shares bought back from shareholders		(185)	–	–	(185)
<b>Balance at 30 June 2017</b>	<b>11</b>	<b>200,892</b>	<b>20,058</b>	<b>(60,195)</b>	<b>160,755</b>
Balance at 1 July 2017		200,892	20,058	(60,195)	160,755
Profit for the year		–	–	4,744	4,744
Transfer to profits reserve		–	9,303	(9,303)	–
Dividends paid		–	(10,769)	–	(10,769)
Shares issued under Dividend Re-investment Plan		1,056	–	–	1,056
Shares bought back from shareholders		(444)	–	–	(444)
<b>Balance at 30 June 2018</b>	<b>11</b>	<b>201,504</b>	<b>18,592</b>	<b>(64,754)</b>	<b>155,342</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<b>Cash flows from operating activities</b>			
Payments for purchase of investments		(260,747)	(173,704)
Proceeds from sale of investments		259,871	185,379
Dividends received		9,208	4,208
Interest received		424	286
Interest paid to note holders		(1,458)	(1,459)
Income tax paid		(2,360)	(356)
Other payments		(5,973)	(6,415)
<b>Net cash (used in)/provided by operating activities</b>	16(b)	<b>(1,035)</b>	<b>7,939</b>
<b>Cash flows from investing activities</b>			
Net cash transferred to discontinued operations		–	13,087
<b>Net cash provided by investing activities</b>		<b>–</b>	<b>13,087</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of new shares		–	4,959
Payments for buyback of shares		(444)	(185)
Dividend paid net of amounts reinvested		(9,713)	(8,589)
<b>Net cash used in financing activities</b>		<b>(10,157)</b>	<b>(3,815)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(11,192)</b>	<b>17,211</b>
Cash and cash equivalents at the beginning of the year		26,647	9,436
<b>Cash and cash equivalents at the end of the year</b>	16(a)	<b>15,455</b>	<b>26,647</b>
<b>Non-cash activities – Dividend reinvestment</b>		<b>1,056</b>	<b>1,940</b>

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

### GENERAL INFORMATION

NAOS Small Cap Opportunities Company Limited (the "Company") and its Controlled Entities is a public company listed on the Australian Securities Exchange (ASX: NSC) registered and domiciled in Australia. The Company was constituted on 14 January 2004 and commenced operations on 25 March 2004.

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

On 20 October 2017, Contango Asset Management Limited, via its subsidiary Contango Funds Management Limited, entered into an agreement to assign its investment management agreement of Contango MicroCap Limited (ASX: CTN) to NAOS Asset Management Limited (ACN 107 624 126).

At the Annual General Meeting on 28 November 2017, shareholders approved the termination of the existing investment management agreement and the entering into a new investment management agreement with NAOS Asset Management Limited.

A resolution was also passed at the Annual General Meeting on 28 November 2017 changing the Company's name from Contango MicroCap Limited to NAOS Small Cap Opportunities Company Limited. The Company also applied to the ASX to change its listing code from "CTN" to "NSC", and this was made effective on 1 December 2017.

The investment manager of the Company is NAOS Asset Management Limited (the "Investment Manager"). Prior to 20 October 2017, the investment manager was Contango Funds Management Limited (the "Former Investment Manager").

The financial statements were authorised for issue by the Directors on 23 August 2018.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Basis of Preparation

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

This general purpose consolidated 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.

The accounting policies and methods of computation adopted in the preparation of the year end financial report are consistent with those adopted and disclosed in the Company's 2017 consolidated financial report, except for the impact of the Standards and Interpretations described in Note 2. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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.

#### b) Accounting for Profits and Losses

At the end of each six-monthly reporting period, the profits of the reporting period are transferred from retained earnings to the profits reserve. This amount is preserved for future dividend payments.

Losses incurred in the reporting period are transferred to the accumulated losses.

#### 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 ("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) Comparatives

Where necessary, the comparative information has been reclassified and repositioned for consistency with the current year-end disclosures.

#### g) 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, dividend income, or other income.

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

##### *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.

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

### h) 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 liabilities on the consolidated Statement of Financial Position.

### i) 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 year end.

#### (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 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 that it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or 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 risks and rewards of ownership.

#### (iii) Measurement

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

At initial recognition, the Company measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated Statement of Profit or Loss and Other Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the consolidated Statement of Profit or Loss and Other Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the year in which they arise.

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

Non-listed investments for which fair value cannot be reasonably measured are carried at cost and tested for impairment.

##### *Derivative Financial Instruments*

The Company holds derivative financial instruments for trading purposes only. Derivatives are initially recognised at fair value and applicable transaction costs are recognised in profit or loss as they are incurred. After initial recognition, derivatives that are not designated in a qualifying hedge relationship are measured at fair value and changes in value are recognised immediately in profit or loss.

##### *Financial Liabilities*

Financial liabilities include trade and other payables, tax payable and borrowings.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

##### *Compound Financial Instruments*

Compound financial instruments issued by the Company comprise convertible notes that are able to be converted to share capital at the option of the noteholder, and the number of shares to be issued will not vary with changes in their fair value. The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional basis.

After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

### j) Expenses

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

### k) 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(g) above. Receivables also include such items as Reduced Input Tax Credits ("RITC").

### l) 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.

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

**m) Income Tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

**Deferred tax balances**

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

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**Tax consolidation**

NAOS Small Cap Opportunities Company Limited and its wholly owned subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 29 March 2013. The parent entity and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

The ability for the parent entity to utilise tax losses in the future will be limited due to the application of the available fraction rules, calculated in line with applicable taxation legislation.

**n) Provisions**

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**o) 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.

**p) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Consolidated Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the consolidated Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**q) Earnings Per Share**

Basic earnings per share are calculated by dividing 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 year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share are calculated by dividing 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 year, adjusted for bonus elements in ordinary shares issued during the year.

**r) Rounding of amounts**

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

**s) Principles of Consolidation**

The Company is an investment entity and therefore does not consolidate its subsidiaries, except for those subsidiaries whose main purpose and activities are providing services that relate to the Company's investment activities.

A subsidiary is an entity controlled by the Company. Control of an entity is achieved when the Company has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and its consolidated subsidiaries (those subsidiaries whose main purpose and activities are providing services that relate to the Company's investment activities).

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

All inter-company balances and transactions, including any unrealised profits or losses, relating to transactions between entities within the consolidated group have been eliminated on consolidation. Subsidiaries are consolidated, where applicable, from the date on which control is established and are de-recognised from the date that control ceases.

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

### s) Principles of Consolidation (continued)

Non-controlling interests in the results of consolidated subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

### t) 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 circumstance, 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. The assumptions and methods used in the determination of the value of investments are outlined in Note 1(i) of these financial statements.

#### (i) Income Tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

#### (ii) Fair Value Measurements

Certain financial assets and liabilities are measured at fair value. Fair values have been determined in accordance with fair value measurement hierarchy.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

### a) Standards and Interpretations adopted in the current period

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
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

Based on the Company's 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 2018 \$'000	Year Ended 30 June 2017 \$'000
Losses on financial assets held at fair value through profit or loss	(378)	(16,730)
Interest income	443	286
Dividend income	9,400	4,098
Other Income	86	–
<b>Total income</b>	<b>9,551</b>	<b>(12,346)</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 4. INCOME TAX

#### a) Income tax expense

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Prima facie income tax expense calculated at 30%	807	(6,172)
Less the tax effect of:		
Imputation credit gross up	1,024	235
Franking credit offset	(3,412)	(783)
Under/(over) provision of prior year tax	39	(96)
Tax losses not previously brought to account	(475)	(184)
Non-deductible expenditure	(38)	322
	<b>(2,055)</b>	<b>(6,678)</b>

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<b>Total Income tax expense/(benefit) results in a:</b>		
Current tax liability	4,423	1,778
Under/(over) provision of prior year tax	39	(46)
Change in deferred tax liability	(6,619)	(8,343)
Change in deferred tax asset	102	(67)
	<b>(2,055)</b>	<b>(6,678)</b>

#### b) Deferred tax assets

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Temporary differences in relation to future deductible liabilities	340	442
	<b>340</b>	<b>442</b>

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<b>Movement in deferred tax assets</b>		
Balance at the beginning of the year	442	375
Credited/(charged) to the statement of profit or loss and comprehensive income	(102)	67
<b>At reporting date</b>	<b>340</b>	<b>442</b>

#### c) Current tax liabilities

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Balance at the beginning of the year	(1,778)	(402)
(Under)/over provision of prior year tax	(39)	46
Tax paid	2,360	356
Current year income tax on operating profit	(4,423)	(1,778)
<b>At reporting date</b>	<b>(3,880)</b>	<b>(1,778)</b>

#### 4. INCOME TAX (CONTINUED)

##### d) Deferred tax liabilities

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Fair value adjustments	(1,150)	(7,829)
Income assessable in the future	(158)	(98)
<b>Deferred tax liability</b>	<b>(1,308)</b>	<b>(7,927)</b>

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<b>Movement in deferred tax liabilities</b>		
Balance at the beginning of the year	(7,927)	(16,270)
Credited/(charged) to the statement of profit or loss and comprehensive income	6,619	8,343
<b>At reporting date</b>	<b>(1,308)</b>	<b>(7,927)</b>

#### 5. DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount \$'000	% Franked	Date of payment
2017 Final dividend (declared on 29 August 2017)	3.90	6,545	50%	13 October 2017
2018 Interim dividend (declared on 16 February 2018)	2.50	4,224	100%	29 March 2018

Year ended 30 June 2017	Dividend rate (cents per share)	Total amount \$'000	% Franked	Date of payment
2016 Final dividend (declared on 29 August 2016)	3.70	6,002	50%	14 October 2016
2017 Interim dividend (declared on 10 February 2017)	2.70	4,527	50%	24 March 2017

Since 30 June 2018, the Board has declared a final dividend of 3 cents per share, fully franked, to be paid on 19 September 2018.

##### Dividend Franking Information

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Franking credits available for shareholders from previous financial years	348	1,465
Impact on the franking account of dividends paid during the year	(3,213)	(2,256)
Impact on the franking account of dividends received during the year	3,412	783
Impact on franking account of income tax paid	2,360	356
<b>Franking account balance</b>	<b>2,907</b>	<b>348</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 6. INVESTMENTS

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

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Investment in listed equities	156,148	170,991
Investment in listed unit trusts	16,195	–
<b>Total financial assets at fair value through profit or loss</b>	<b>172,343</b>	<b>170,991</b>

#### b) Disclosed Fair Values

For all financial instruments their carrying value approximates fair value.

### 7. RECEIVABLES

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Other receivables	607	479
Unsettled trades receivable	417	1,022
<b>Total</b>	<b>1,024</b>	<b>1,501</b>

### 8. OTHER FINANCIAL ASSETS

Deferred finance costs applicable to the discounted cash flow benefit arising from the deferred termination fee payment.

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Recognised over next 12 months	4	4
Recognised beyond next 12 months	47	51
<b>Total</b>	<b>51</b>	<b>55</b>

### 9. PAYABLES

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
<b>Current</b>		
Unsettled trades payable	880	676
Other payables	994	1,550
	<b>1,874</b>	<b>2,226</b>
<b>Non-current</b>		
Other payables	574	776
<b>Total current and non-current payables</b>	<b>2,448</b>	<b>3,002</b>

## 10. BORROWINGS

There were 265,000 convertible notes outstanding at 30 June 2018 each with a face value of \$100 which were issued on 24 December 2014. These notes carry an interest entitlement of 5.5% per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of \$1.30 per share until 31 March 2020. Notes not converted will be redeemed at their face value on 31 March 2020. At 30 June 2018, the face value of the convertible notes on issue was \$26.5 million (2017: \$26.5 million). Terms of the notes are regulated under a trust deed between the Company and Equity Trustees Limited.

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Face value of convertible notes	26,500	26,500
Less raising costs	(625)	(625)
Previous amortised costs	299	181
Add amortisation of costs for period	118	118
Unsecured convertible notes at amortised cost	26,292	26,174

## 11. ISSUED CAPITAL

	30 June 2018		30 June 2017	
	No. of shares	\$'000	No. of shares	\$'000
Issued and fully paid up capital – Ordinary shares	168,995,806	201,504	168,289,506	200,892

Detailed provisions relating to the rights attaching to these 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:

- (a) 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*;
- (b) 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);
- (c) the right to receive dividends;
- (d) 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 members by special resolution); and
- (e) 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	\$'000
01 July 2016	Opening balance	162,040,056	194,178
	Shares issued	4,431,474	4,759
	Shares issued from option exercise	180,289	200
	Shares issued under Dividend Re-investment Plan	1,839,687	1,940
	Shares bought back from shareholders	(202,000)	(185)
30 June 2017	Closing balance	168,289,506	200,892
01 July 2017	Opening balance	168,289,506	200,892
	Shares issued under Dividend Re-investment Plan	1,173,300	1,056
	Shares bought back from shareholders	(467,000)	(444)
30 June 2018	Closing balance	168,995,806	201,504

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 12. RESERVES AND ACCUMULATED LOSSES

#### Profits Reserve

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Opening balance	20,058	13,896
Transfer from retained earnings	9,303	16,691
Dividends paid	(10,769)	(10,529)
Balance at the end of the year	18,592	20,058

#### Accumulated Losses

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Balance at the beginning of the year	(60,195)	(29,610)
Transfer to profits reserve	(9,303)	(16,691)
Profit/(loss) for the year attributable to the members of the Company	4,744	(13,894)
Balance at the end of the year	(64,754)	(60,195)

### 13. INTERESTS IN SUBSIDIARIES

Subsidiaries of the Company	Country of Incorporation	Ownership interest held by the Group	
		30 June 2018	30 June 2017
Contango Capital Partners Pty Ltd	Australia	100%	100%
Bellwether Partners Limited	Australia	–	100%

During the year the Company entered into a transaction to sell its shareholding in the non-operating company, Bellwether Partners Limited, for a nominal sum.

### 14. INVESTMENT MANAGER

On 20 October 2017, the Former Investment Manager assigned its investment management agreement ("Former Investment Management Agreement") to NAOS Asset Management Limited (the "Investment Manager"). At a general meeting on 28 November 2017, shareholders approved the Company to enter into a new investment management agreement with the Investment Manager.

Under this investment management agreement, the Investment Manager is entitled to a management fee of 1.15% per annum (excluding GST) on the value of the Company's investment portfolio. For the period from 20 October 2017 to 30 June 2018, the Investment Manager earned management fees of \$1,597,654.

In the event that the investment portfolio outperforms the Benchmark Index (being the S&P/ASX Small Ordinaries Accumulation Index), the Investment Manager is entitled to an annual performance fee equal to 20% (excluding GST) 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. No performance fees were paid or payable to the Investment Manager for the year ended 30 June 2018.

Prior to 20 October 2017, the Former Investment Manager acted under the Former Investment Management Agreement. Under this, the Former Investment Manager was entitled to a management fee of 1.25% per annum (excluding GST) on the Company's portfolio valued at less than or equal to \$200m; plus 1% per annum (excluding GST) on the increment of the Company's portfolio valued above \$200 million. For the period from 1 July 2017 to 20 October 2017 the Former Investment Manager was paid management fees of \$676,650.

The Company agreed in the previous financial year to pay OC Funds Management Pty Ltd, via Copia Investment Partners Limited ("OCFM") a termination fee totalling \$1,046,250 with regard to an arrangement to provide investment management services that it entered into, and terminated, in 2017. As at 30 June 2018, \$843,750 remained payable to OCFM.

## 15. AUDITOR'S REMUNERATION

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Audit and other assurance services</b>		
Audit and review of financial reports	62,300	66,000
Other assurance services	–	–
<b>Total remuneration for audit and other assurance services</b>	<b>62,300</b>	<b>66,000</b>
<b>Other non-audit services</b>		
Advisory services	–	12,620
Taxation services	19,000	32,950
<b>Total remuneration for non-audit services</b>	<b>19,000</b>	<b>45,570</b>
<b>Total remuneration of Pitcher Partners</b>	<b>81,300</b>	<b>111,570</b>

## 16. CASH AND CASH EQUIVALENTS

### a) Components of cash and cash equivalents

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Cash at bank	15,455	26,647

### b) Reconciliation of Profit/(loss) for the year to cash used in operating activities

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Profit/(loss) for the year attributable to shareholders after tax	4,744	(13,894)
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	(1,352)	28,510
Depreciation and amortisation	118	118
Income tax benefit recognised in the Statement of Profit or Loss and Other Comprehensive Income	(2,055)	(6,678)
Income tax paid	(2,360)	(356)
Change in assets and liabilities:		
Decrease in trade and other receivables	424	2,610
Decrease in trade and other payables	(554)	(2,371)
<b>Net cash used in operating activities</b>	<b>(1,035)</b>	<b>7,939</b>

## 17. 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 (including price risk and interest rate risk), liquidity risk, market risk and risks relating to fair value.

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 receivables and payables, 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 under policies approved by the Board.

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 below.

### 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 a contractual obligation to a financial instrument. The Investment Manager monitors the credit worthiness of counterparties on an ongoing basis and evaluates the credit quality of all new counterparties before engaging them.

The maximum exposure to credit risk on financial assets, excluding investments of the Company which have been recognised in the Consolidated Statement of Financial Position, is the carrying amount net of any provision for impairment of those assets.

The Investment Manager is responsible for ensuring there is appropriate diversification across counterparties and that they are of sufficient quality and diversity to minimise any individual counterparty credit risk. The majority of the Company's receivables arise from unsettled trades at year end which are settled two days after trade date. Engaging with counterparties via the Australian Securities Exchange facilitates the Company in both mitigating and managing its credit risk. The exposure to credit risk for cash and cash equivalents is considered to be low as all counterparties (National Australia Bank, Australian Executor Trustees) have a rating of A or higher.

As of 30 June 2018 the Company had no exposure to futures. (30 June 2017: the Company had exposure to 55 ASX Share Price Index futures contracts with a notional value of \$7,767,375).

None of the financial assets exposed to a credit risk are overdue or considered to be impaired, with the current exposure equal to the fair values of those investments as disclosed in the consolidated Statement of Financial Position.

### 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) 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. Convertible notes that were issued on 19 December 2014 pay a fixed rate of 5.5% per annum payable half-yearly on 30 September and 31 March each year until 31 March 2020.

The Company's exposure to interest rate risk is set out in the following table:

30 June 2018	Floating interest rate \$'000	Non-Interest Bearing \$'000	Total \$'000
<b>Assets</b>			
Cash and cash equivalents	15,455	–	15,455
Receivables	–	1,024	1,024
Financial assets at fair value through profit or loss	–	172,343	172,343
<b>Total Assets</b>	<b>15,455</b>	<b>173,367</b>	<b>188,822</b>
<b>Liabilities</b>			
Payables	–	2,448	2,448
Provision for income tax	–	3,880	3,880
<b>Total Liabilities</b>	<b>–</b>	<b>6,328</b>	<b>6,328</b>
<b>Net exposure</b>	<b>15,455</b>	<b>167,039</b>	<b>182,494</b>

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

### b) Market Risk (continued)

#### (i) Interest Rate Risk (continued)

30 June 2017	Floating interest rate \$'000	Non-Interest Bearing \$'000	Total \$'000
<b>Assets</b>			
Cash and cash equivalents	26,647	–	26,647
Receivables	–	1,501	1,501
Financial assets at fair value through profit or loss	–	170,991	170,991
<b>Total Assets</b>	<b>26,647</b>	<b>172,492</b>	<b>199,139</b>
<b>Liabilities</b>			
Payables	–	3,002	3,002
Provision for income tax	–	1,778	1,778
<b>Total Liabilities</b>	<b>–</b>	<b>4,780</b>	<b>4,780</b>
<b>Net exposure</b>	<b>26,647</b>	<b>167,712</b>	<b>194,359</b>

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 (\$'000)
<b>30 June 2018</b>		
AUD interest rate	25bps/(25bps)	39/(39)
<b>30 June 2017</b>		
AUD interest rate	25bps/(25bps)	67/(67)

#### (ii) 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 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 positive 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% \$'000	10% \$'000
30 June 2018	(17,234)	17,234
30 June 2017	(17,099)	17,099

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

#### b) Market Risk (continued)

##### (iii) 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 2018
Telecommunication Services	28.06%
Real Estate	15.88%
Health Care	10.59%
Diversified Financials	9.17%
Commercial and Professional Services	7.94%
Retailing	6.76%
Software and Services	6.30%
Media	6.00%
Materials	4.74%
Capital Goods	4.56%
<b>Total</b>	<b>100.00%</b>

#### 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 2018 to the contractual maturity date.

	30 June 2018			
	< 1 month \$'000	1-12 months \$'000	> 12 months \$'000	Total \$'000
Borrowings	–	–	26,292	26,292
Trade and other payables	1,604	270	574	2,448
Provision for Income Tax	–	3,880	–	3,880
<b>Total financial liabilities</b>	<b>1,604</b>	<b>4,150</b>	<b>26,866</b>	<b>32,620</b>
	30 June 2017			
	< 1 month \$'000	1-12 months \$'000	> 12 months \$'000	Total \$'000
Borrowings	–	–	26,174	26,174
Trade and other payables	1,956	270	776	3,002
Provision for Income Tax	–	1,778	–	1,778
<b>Total financial liabilities</b>	<b>1,956</b>	<b>2,048</b>	<b>26,950</b>	<b>30,954</b>

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

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

### 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 to. 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, recorded at fair value and presented by level of the fair value hierarchy:

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

	30 June 2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Investment in listed equities	156,148	–	–	156,148
Investment in listed unit trusts	16,195	–	–	16,195
<b>Total financial assets designated at fair value through profit or loss</b>	<b>172,343</b>	<b>–</b>	<b>–</b>	<b>172,343</b>

	30 June 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Investment in listed equities	170,991	–	–	170,991
<b>Total financial assets designated at fair value through profit or loss</b>	<b>170,991</b>	<b>–</b>	<b>–</b>	<b>170,991</b>

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

There are no financial liabilities designated at fair value through profit or loss as at 30 June 2018 and 30 June 2017.

### 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 11 and 12 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 including regular payment of dividends 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.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 18. EARNINGS PER SHARE

	Year ended 30 June 2018 cents	Year ended 30 June 2017 cents
Basic and diluted earnings per share	2.8	(8.4)
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	168,745,084	166,307,410
	\$'000	\$'000
Net profit used in the calculation of basic and diluted earnings per share	4,744	(13,894)

### 19. COMMITMENTS AND CONTINGENCIES

The Company regularly commits to underwriting activities in respect of public share issues. At 30 June 2018 the potential amount the Company may be liable for is \$Nil (2017: \$Nil). As disclosed in Note 14 – Investment Manager, the Company has an ongoing financial commitment to OC Funds Management Pty Ltd until March 2022.

As of 30 June 2018, the Company had no contingencies (30 June 2017: \$ Nil).

### 20. RELATED PARTY TRANSACTIONS

Transactions with related parties have taken place at arm's length and in the ordinary course of business. Management fees paid to NAOS Asset Management Limited amount to \$1,597,653 of which \$198,024 was payable as at 30 June 2018, and directors' fees paid during the year totalled \$111,572 (2017: \$309,800).

### 21. PARENT ENTITY INFORMATION

Summarised presentation of the financial statements of the parent entity, NAOS Small Cap Opportunities Company Limited:

#### a) Summarised statement of financial position

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Assets	189,270	199,245
Liabilities	33,928	38,439
Net Assets	155,342	160,806
Equity	155,342	160,806

#### b) Summarised statement of comprehensive income

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Profit/(loss) for the year	4,744	(13,895)
Total comprehensive income/(loss) for the year	4,744	(13,895)

### 22. 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 income from the investment portfolio.

### 23. SUBSEQUENT EVENTS

On 23 August 2018, the Company declared a fully franked dividend of 3.0 cents per share payable on 19 September 2018.

Other than the above, there has been no other 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.

## DIRECTORS' DECLARATION

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

In the opinion of the directors:

- the consolidated financial statements and notes are in accordance with the *Corporations Regulations 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 2018;
- 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 303(5) of the *Corporations Act 2001*.

On behalf of the Board



Sebastian Evans

Director

23 August 2018

## ADDITIONAL INFORMATION

The additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in the report.

### **INVESTMENT PORTFOLIO**

As at 30 June 2018 the Company had the following investments:

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Big River Industries Limited

BSA Limited

Consolidated Operations Group Limited

Enero Group Limited

Japara Healthcare Limited

MBD Energy Limited

MNF Group Limited

Motorcycle Holdings Limited

Over The Wire Holdings Limited

Service Stream Limited

360 Capital Group Limited

360 Capital Total Return Fund

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During the financial year ended 30 June 2018, the Company had 1,820 transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2018 were \$1,815,275.

## 20 LARGEST ORDINARY SHAREHOLDERS AND CONVERTIBLE NOTE HOLDERS

Details of the 20 largest ordinary shareholders and convertible note holders along with their respective holdings as at 31 July 2018.

Ordinary Shareholders	Balance as at 31 July 2018	Percentage
HSBC Custody Nominees (Australia) Limited	15,734,697	9.31%
Bond Street Custodians Limited	4,778,384	2.83%
Mr Victor John Plummer	3,000,000	1.78%
David Ian Stevens	1,294,412	0.77%
Beck Havas Pty Ltd	1,251,991	0.73%
NAOS Asset Management Limited	859,500	0.51%
Demeta Pty Ltd	825,000	0.49%
Mr William Laister & Mrs Lyn Laister	817,331	0.48%
Mr James V C Guest & Mrs Sarah L Guest	799,643	0.47%
Somoke Pty Ltd	776,138	0.46%
Mrs Ida Rubin	771,791	0.46%
Graham Evans Investment Pty Ltd	750,000	0.44%
Mr Donald Mackenzie & Mrs Gwenneth Mackenzie	730,000	0.43%
Angus Mac Pty Ltd	720,147	0.43%
Gee-Elle Pty Ltd	640,000	0.38%
G H Kluge & Sons Ltd	600,000	0.36%
BNP Paribas Nominees Pty Ltd	545,534	0.32%
Mr James V C Guest	531,107	0.31%
Horton Pty Ltd	524,000	0.31%
Mr James V C Guest & Mrs Sarah L Guest	509,834	0.30%
<b>Total</b>	<b>36,459,509</b>	<b>21.57%</b>

Convertible Note Holders	Balance as at 31 July 2018	Percentage
HSBC Custody Nominees (Australia) Limited	27,336	10.32%
Farallon Capital Pty Ltd	23,750	8.97%
J P Morgan Nominees Australia Pty Ltd	17,771	6.71%
CS Third Nominees Pty Ltd	15,370	5.80%
Citicorp Nominees Pty Ltd	12,500	4.72%
Investment Management Company Pty Ltd	11,280	4.26%
The Police Association	10,000	3.77%
Kooyongkoot Pty Ltd	7,500	2.83%
Sofigo Investments Pty Ltd	3,000	1.13%
TJMW Holding Pty Ltd	2,950	1.11%
Dr Graeme Dorahy & Mrs Jean Dorahy	2,763	1.04%
Mrs Annie Elizabeth Scott	2,500	0.95%
Manos Capital Pty Ltd	2,500	0.95%
Mr Craig Robson & Mrs Lisa Harrison	2,134	0.81%
Twenty Second Natro Pty Ltd	2,050	0.77%
Mr Peter Polson & Mrs Rosemary Polson	2,000	0.75%
Gemline Pty Ltd	2,000	0.75%
BJM Income Investments Pty Ltd	2,000	0.75%
Jeroboam Pty Ltd	2,000	0.75%
Mr Damian Pretty & Ms Jodie Northcott	1,994	0.75%
<b>Total</b>	<b>153,398</b>	<b>57.89%</b>

## ADDITIONAL INFORMATION

Continued

### **DISTRIBUTION OF ORDINARY SHARES AND CONVERTIBLE NOTES**

Analysis of ordinary shares and convertible notes by size of shareholders and convertible noteholders as at 31 July 2018.

Holdings ranges	Ordinary Shareholders	Convertible Note Holders
1-1,000	422	248
1,001-5,000	873	27
5,001-10,000	888	2
10,001-100,000	2,746	6
100,001 and over	221	0
<b>Total</b>	<b>5,150</b>	<b>283</b>

### **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 and Convertible Notes of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

### **BUY BACK**

A share buy-back is not currently in place. In the 12 months to 30 June 2018 the Company bought back a total of 467,000 ordinary shares for consideration of \$444,196. (2017: The Company bought back a total of 202,000 ordinary shares for consideration of \$184,757).

### **UNMARKETABLE PARCELS**

As at 31 July 2018, the Company had 300 unmarketable parcels of securities.

### **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**

Trevor Carroll (Independent Chairman)  
David Rickards (Non-executive Director)  
Sebastian Evans (Non-executive Director)  
Warwick Evans (Non-executive Director)

### **COMPANY SECRETARY**

Rajiv Sharma

### **REGISTERED OFFICE**

Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000

### **INVESTMENT MANAGER**

NAOS Asset Management Limited  
Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000  
(Australian Financial Services Licence Number: 273529)

### **CONTACT DETAILS**

T: (02) 9002 1576  
E: [enquiries@naos.com.au](mailto:enquiries@naos.com.au)  
W: [www.naos.com.au](http://www.naos.com.au)

### **SHARE REGISTRY**

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

### **AUDITOR**

Pitcher Partners  
Level 13, 664 Collins Street  
Docklands  
VIC 3008

