

## NAOS Small Cap Opportunities Company Limited ABN 47 107 617 381 (Company) Corporate Governance Statement 2019

This Corporate Governance Statement sets out the Company's current compliance with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**). Although the ASX Recommendations are not mandatory, the Board of the Company is committed to achieving and demonstrating high standards of corporate governance. As such, the Company has adopted what it believes to be appropriate corporate governance policies and practices having regard to the size and nature of its activities, in line with the ASX Recommendations. The Company has adopted the ASX Recommendations for the current financial year, subject to the exceptions noted below.

	Recommendations	Compliance	Comment
1.	<b>Lay solid foundations for management and oversight</b>		
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	Complies	This is disclosed in the Board Charter, a copy of which is available on the Company's website at <a href="http://www.naos.com.au">www.naos.com.au</a> . The management agreement between the Company and NAOS Asset Management Limited ( <b>Investment Manager</b> ) sets out the specific investment management responsibilities that the Board has delegated to the Investment Manager.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.	Complies	The process for the appointment and retirement of Directors is detailed in the Board Charter. It incorporates the factors which will be considered by the Board when seeking new candidates and the disclosure to shareholders of both the process by which the Director candidate was selected and all relevant background information in the possession of the Board on the candidate.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complies	The Company does not have any senior executives. The Company requires each Director to execute a written agreement setting out the terms of their appointment. Each member of the Board has significant experience as a company director and each is fully aware of their roles and responsibilities.
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complies	The Board Charter specifies that the company secretary is accountable directly to the Board, through the Chairperson, on all matters to do with the proper functioning of the Board.

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1.5	<p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity; and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's "Gender Equality Indicators", as defined in and published under the Act</p>	Does not comply	As the Company has no full-time employees and given the size of the Board, a diversity policy has not been established. However, the Company's Board Charter includes a diversity statement which sets out diversity principles that the Company aims to consider and review on a regular basis. Although the Company wishes to maintain a small Board in order to minimise costs and increase shareholder returns; the Board's composition is reviewed on an annual basis and in the event a vacancy arises, the Board will be cognisant of its diversity principles in its nomination process.
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	Complies	The Board reviews its performance by ongoing discussions, individual communication with the Chairman and by reference to generally accepted Board performance standards. The Board is responsible for undertaking an annual performance evaluation of itself and its Directors in accordance with the Board Charter.

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1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process</p>	Does not comply	The Company does not have any senior executives.

	Recommendations	Compliance	Comment
	<b>Structure the Board to add value</b>		
2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ol style="list-style-type: none"> <li>(1) has at least three members, a majority of whom are independent directors; and</li> <li>(2) is chaired by an independent director, and disclose:                             <ol style="list-style-type: none"> <li>(3) the charter of the committee;</li> <li>(4) the members of the committee; and</li> <li>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> </ol> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its and responsibilities effectively.</p>	Does not comply	Due to the size of the Company, the Company does not have a Nomination Committee. The Board believes that the formation of such a committee would be inefficient given the nature and size of the Company. It would not serve to protect or enhance the interests of the shareholders. The Board will deal with this issue as a whole and will identify suitable candidates to fill vacancies as they arise with the aim of achieving the optimal mix of skills and diversity. Should the size of the Company change, the Board will consider establishing a separate nomination committee.

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2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Does not comply	While the Company does not have a formal board skills matrix, the attributes of each Director are considered before appointment. The skills, experience and expertise relevant to the position and term of office of each Director who is in office at the date of the annual report is detailed within the annual report.
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	Complies	The Company assesses the independence of its Directors against the requirements for independence set out in the Board Charter which reflect the independence criteria set out in the ASX Corporate Governance Principles.  Director independence is initially assessed upon each Director's appointment and reviewed each year, or as required when a new personal interest or conflict of interest is disclosed. Directors are required to disclose all actual or potential conflicts of interest on an ongoing basis. Trevor Carroll (Chairman) and David Rickards, are considered by the Company to be independent. Trevor Carroll was appointed as a director on 27 March 2017. Warwick Evans and Sebastian Evans were each appointed as directors on 20 October 2017. David Rickards was appointed as a director on 28 February 2018.
2.4	A majority of the board should be independent directors.	Does not comply	The Board has two independent Directors and two non-independent Directors. Trevor Carroll (Chairman) and David Rickards are considered to be independent because they have no direct involvement in the management of the portfolio and are free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the independent exercise of their judgement. Trevor Carroll is also the Chairman.  The Board considers that all Directors of the Company bring significant expertise and investment experience to the Company and that the current structure is appropriate for the Company at this time.
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Complies	The Company does not have a chief executive officer. The chairman, Trevor Carroll, is considered by the Company to be independent.
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Complies	Under the Board Charter, the Company Secretary is responsible for arranging a new Director to undertake an induction program to understand the Company. Each Director may also obtain independent professional or other advice at the cost of the Company on matters arising during the course of their Board duties. The payment for the cost of the advice sought by the Company is subject to the approval of the Chairman, which will not be unreasonably withheld. The Company encourages all Directors to maintain the skills and knowledge required to effectively perform their role.

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<b>3.</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	<p>A listed entity should:</p> <p>(a) have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) disclose that code or a summary of it.</p>	Complies	<p>The Company has a Code of Conduct, a copy of which is available on the Company's website (<a href="http://www.naos.com.au">www.naos.com.au</a>).</p> <p>The Company requires all its directors, executives and employees to comply with the standards of behaviour and business ethics in accordance with the law and the code of conduct. These include acting honestly and with integrity and fairness in all dealings with others and each other, managing conflicts of interests, complying with the laws that govern the Company's business and its operations and acting ethically in their approach to business decisions.</p> <p>The Company's Code of Conduct does not allow the making of payments or payments in kind (gifts, favours etc.) to induce individuals to award business opportunities to the Company or to decide in the Company's favour.</p> <p>The Company's Code of Conduct recognises that it is accepted business practice that entertainment and small gifts may be extended to third parties with whom the Company has a relationship. However, any such gifts must be made for a proper purpose.</p> <p>The Company Code of Conduct also mandates the Company's Officers, Executives and employees should not accept personal gifts or extraordinary hospitality, accommodation or travel, which may influence, or appear to influence, a business decision.</p> <p>All conflict of interests are managed in accordance with the requirements of Corporation Act, Listing Rules and the Company's Constitution. The Directors believe the Company's Code of Conduct and its reporting mechanism are appropriate to the scale of the Company's operations.</p>

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<b>4.</b>	<b>Safeguard integrity in corporate reporting</b>		
4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	Does not comply	<p>The Board does not intend to establish an audit committee because the formation of such a committee would be inefficient given the Company's size and nature. It would not serve to protect or enhance the interest of shareholders. The Board will deal with this issue as a whole. Should the size or nature of the Company change, the Board will consider establishing a separate audit committee.</p> <p>The Company's approach to financial reporting reflects the following core principles:</p> <p>(i) The Company's financial reports present a true and fair view;</p> <p>(ii) The Company's accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and</p> <p>(iii) The Company's external auditor is independent and serves security holder interests.</p> <p>The Board monitors Australian and international developments relevant to these principles and reviews its practices accordingly.</p> <p>The Company's external auditor's appointment and removal has been or will be done in accordance with the requirements of the Corporations Act. The Company will also ensure any individual who plays a significant role in the audit of the Company will be rotated in accordance with the requirements of the Corporations Act.</p>
4.2	<p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	Complies	<p>The Investment Manager is responsible for preparing the declaration pursuant to Section 295A of the Corporations Act as the Company does not have a chief executive officer (or equivalent) or a chief financial officer (or equivalent). Accordingly, the Board seeks to procure that the Investment Manager puts in place sound systems of risk management and financial controls and ensure that the systems are operating effectively in all material respects.</p>
4.3	<p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	Complies	<p>The external auditor will attend the annual general meeting of shareholders and will be available to answer any questions from security holders concerning the conduct, preparation and content of the auditor's report.</p>

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	<b>Recommendations</b>	<b>Compliance</b>	<b>Comment</b>
<b>5.</b>	<b>Make timely and balanced disclosure</b>		
5.1	<p>A listed entity should:</p> <p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it.</p>	Complies	<p>The Company operates under the continuous disclosure requirements of the ASX Listing Rules as set out in its Continuous Disclosure Policy, a copy of which is available on its website (<a href="http://www.naos.com.au">www.naos.com.au</a>)</p> <p>The Company ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market to ensure that all investors have equal and timely access to the material information concerning the Company.</p> <p>The Company Secretary has the responsibility for ensuring that all relevant information is released to the market in a timely manner in consultation with the Board. The Company considers this to be a satisfactory protocol given its size and the nature of the Company.</p>

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<b>6.</b>	<b>Respect the rights of security holders</b>		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Complies	The Company provides information on itself and its corporate governance via its website at <a href="http://www.naos.com.au">www.naos.com.au</a>
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Complies	<p>The Board has developed a strategy within its Continuous Disclosure Policy to ensure that shareholders are informed of all major developments affecting the Company's performance, activities and state of affairs. This includes having a website to facilitate communication with shareholders via electronic methods. In addition, the Company publishes regular shareholder communications, such as monthly NTA reports, half-yearly and annual reports, and provides shareholders with an opportunity to access such reports and other releases electronically.</p> <p>The Board encourages full participation of shareholders at the Company's annual general meetings and any general meetings to ensure a high level of accountability and identification with the Company's strategy. The external auditor also attends the annual general meeting and is available to answer any questions concerning the preparation and content of the audited financial statements.</p>
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Complies	This information is disclosed in the Company's Continuous Disclosure Policy, a copy of which is available on its website ( <a href="http://www.naos.com.au">www.naos.com.au</a> ).
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Complies	The Company gives shareholders the option to receive and send communications to the Company and its share registry electronically. Additionally, shareholders may communicate with the Company or its share registry by email, post, telephone or via its website. The Company also includes copies of all announcements released to the ASX on its website.

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	<b>Recommendations</b>	<b>Compliance</b>	<b>Comment</b>
<b>7.</b>	<b>Recognise and manage risk</b>		
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	Does not comply	The Company no longer has such a committee, as due to the size and nature of the Company, it was considered to be inefficient and did not serve to protect or enhance the interests of shareholders. The responsibility for the effectiveness of risk management and internal compliance and control will rest with the Board. The Board will liaise with and oversee the application by the Investment Manager of the risk management protocols.
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; &amp;</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	Complies	<p>As a small company, the Board works closely with the Investment Manager to identify and manage operational, financial and compliance risks which could prevent the Company from achieving its objectives.</p> <p>The Investment Manager has completed a review of the risk management framework for the current reporting period.</p>
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	Does not comply	<p>Due to the size of the Company's operations and the role played by the Investment Manager, the Company does not have an internal audit function and in part relies on the systems of internal control used by the Investment Manager.</p> <p>The Board works closely with the Investment Manager to identify and manage operational, financial and compliance risks, which could prevent the Company from achieving its objectives.</p>
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Complies	<p>As a listed investment company, the Company's operating activities are dependent on the performance of the assets within its investment portfolio (which in turn are exposed to the effects of economic conditions and economic risk).</p> <p>Due to the size of the Company's operations and the role played by the Investment Manager, the Company works closely with the Investment Manager to identify and manage operational, economic, environmental, social sustainability, financial and regulatory risks. The Company's exposure to and management of these risks is disclosed in its annual report.</p>

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	<b>Recommendations</b>	<b>Compliance</b>	<b>Comment</b>
<b>8.</b>	<b>Remunerate fairly and responsibly</b>		
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	Does not comply	<p>A remuneration committee has not been established because the Board believes that the formation of such a committee would be inefficient given the size and nature of the Company. It would not serve to protect or enhance the interests of shareholders. The Board will deal with this issue as a whole. Should the size of the Company change, the Board will consider establishing a separate remuneration committee.</p> <p>The maximum total remuneration of the Directors of the Company has been set at \$750,000, as approved by shareholders. The maximum fees paid to Non-Executive Directors may not be increased without approval from the Company at a general meeting. The operations of the Company and the frequency of Board meetings principally determine the fee levels. At present,</p>
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Does not comply	The Company does not have any executive Directors or senior executives. The remuneration of all the Non-Executive Directors is disclosed in the annual report.
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	Not Applicable	The Company does not have an equity-based remuneration scheme.