

## NAOS Emerging Opportunities Company Limited

ASX Code: NCC ACN: 161 106 510

### Appendix 4E | Results for Announcement to the Market

Results Announcement for the year ended 30 June 2018

All comparisons are to the year ended 30 June 2017

	\$	up/down	% change
Revenue from ordinary activities	6,459,544	down	-17%
Profit from ordinary activities before tax attributable to shareholders	4,917,418	down	-20%
Profit from ordinary activities after tax attributable to shareholders	4,124,365	down	-10%
<b>Dividend Information</b>	<b>Cents per share</b>	<b>Franked amount per share</b>	<b>Tax rate for franking</b>
2018 Final dividend	3.50	3.50	30%
2018 Interim dividend	3.75	3.75	30%
<b>Final Dividend Dates</b>			
Ex-dividend date			8 October 2018
Record date			9 October 2018
Last date for DRP election			10 October 2018
Payment date			24 October 2018
<b>Dividend Reinvestment Plan</b>			
The Dividend Reinvestment Plan is in operation and the recommended fully franked final dividend of 3.50 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.			
	<b>30 June 2018</b>	<b>30 June 2017</b>	
	\$	\$	
<b>(Post Tax) Net tangible asset backing per share</b>	1.23	1.24	
This report is based on the annual report which has been subject to independent audit by the auditors, Deloitte Touche Tohmatsu Australia. The audit report is included with the Company's Annual Report, which accompanies this Appendix 4E. All the documents comprise the information required by the Listing Rule 4.3A.			





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NAOS EMERGING OPPORTUNITIES  
COMPANY LIMITED

Annual Report 2018



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## KEY DATES

### 2018 ANNUAL GENERAL MEETING

AGM to be held at 10:00am (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

NAOS Emerging Opportunities Company Limited is a listed investment company and its shares are listed on the Australian Securities Exchange (ASX: NCC). 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).

NCC aims to provide investors with genuine, concentrated exposure to Australian undervalued listed micro-cap companies (market capitalisation generally less than \$250 million) with an industrial focus.

**\$4.1m**

PROFIT FOR  
THE YEAR

**7.25c ▲**

FULLY FRANKED  
DIVIDEND  
(INCREASE 3.6%)

**1,895 ▲**

SHAREHOLDERS  
(INCREASE 13%)

**5.78%**

HISTORICAL  
FULLY FRANKED  
DIVIDEND YIELD

#### KEY METRICS AS AT 30 JUNE 2018

Pre-tax Net Tangible Assets	\$1.28
Post-tax Net Tangible Assets	\$1.23
Historical Fully Franked Dividend Yield	5.78%
Fully Franked FY18 Dividend	7.25 cents
Share Price	\$1.255
Shares on Issue	59,673,562
Directors' Shareholding	3,952,180
Market Capitalisation	\$74.9 million

#### INVESTMENT PORTFOLIO PERFORMANCE AS AT 30 JUNE 2018

	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (NOM.)
NCC INVESTMENT PORTFOLIO PERFORMANCE*	+7.13%	+14.53%	+14.92%	+16.09%	+121.83%
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX (XSOAI)	+24.25%	+15.00%	+11.56%	+7.01%	+43.59%
OUTPERFORMANCE RELATIVE TO BENCHMARK	-17.12%	-0.47%	+3.36%	+9.08%	+78.24%

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom.) includes part performance for the month of February 2013. Returns compounded for periods greater than 12 months.



### SEBASTIAN EVANS

#### Director

Sebastian Evans has been a Director of the Company since inception. Sebastian is also a Director of NAOS Small Cap Opportunities Company Limited (ASX: NSC), 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 inception. Warwick is also a Director of NAOS Small Cap Opportunities Company Limited (ASX: NSC) 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 Chairman

David Rickards has been a Director and Chairman of the Company from 20 November 2012. David is also a Director of NAOS Small Cap Opportunities Company Limited (ASX: NSC) and Chairman of NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

David is also 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).



Dear Fellow Shareholders,

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

The Board would like to thank all our shareholders for their continued support and we welcome all the new shareholders who have joined the Company during the 2018 financial year.

For the financial year ended 30 June 2018, the Company recorded an after-tax profit of \$4.1 million. The Company declared a record 7.25 cents per share of fully franked dividends for the year, which represented a growth of 4% over the previous year and marks the sixth year of consecutive dividend increases. The Board continues to be mindful of providing shareholders a growing stream of fully franked dividends over the longer term whilst building a profit reserve, which can be utilised in periods where strong positive performance is harder to achieve.

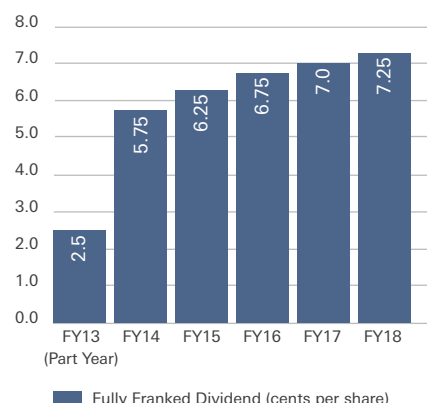
The Company prides itself in offering what we believe is the only Listed Investment Company ('LIC') that provides a pure, concentrated, long-term exposure to micro-cap industrial businesses regardless of their liquidity profile. This concentrated, long-term approach is reflected by the nine positions held as at 30 June, all of which have been held for more than 12 months within the investment portfolio.

The investment portfolio produced a positive return of +7.1% for the financial year ended 30 June 2018, though it did significantly underperform the benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which rose by +24.3%. Given the index unaware approach and the concentrated nature of the portfolio, performance differing to the broader market from time to time will occur. The Company remains focused on capital preservation over the longer term with the investment portfolio yet to recognise a negative financial or calendar year return. Also note, the portfolio returns since inception of the Company have been generated with a lower volatility than that of the wider market.

The total shareholder return ('TSR') shows the total return to shareholders, being the change in share price together with dividends reinvested, but does not include the benefits of franking credits paid to shareholders. The TSR for the Company for the year to 30 June 2018 was -0.5%. Although the share price traded consistently at a premium to pre-tax net tangible assets ('NTA') for the majority of the year, a decrease in the share price during the final months of the financial year caused the TSR to lag the portfolio return.

With regard to NTA growth, the NTA of the Company did not change significantly over the year, with the increase in NTA generated from the positive performance of the investment portfolio offset by the payment of dividends to shareholders and the payment of tax over the course of the year. In order to eliminate potential dilution for existing shareholders, the Company did not issue any shares at a discount, with the Dividend Reinvestment Plan ('DRP') capital management initiative further supporting this by issuing DRP shares only when the Company is trading at a premium, and buying shares on-market when trading at a discount to post-tax NTA.

During FY18, the Company continued to look for ways to improve the quality and transparency of our investment communications; these initiatives contributed to record shareholder numbers, with more than 200 new shareholders added to the register. As at 30 June 2018 the Company finished with 1,895 shareholders on the register which represented a 13% increase from the end of the previous financial year. A larger shareholder base corresponds to stronger liquidity.



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

All Directors increased their holdings throughout the financial year whilst also taking advantage of the Dividend Reinvestment Plan, and now hold a cumulative 3.95 million shares, continuing to align their interests with those of shareholders.

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

David Rickards  
Independent Chairman  
23 August 2018



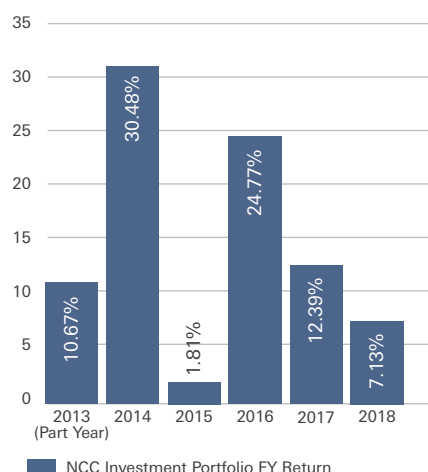


Dear Fellow Shareholders,

This year has been a more challenging one for the NCC investment portfolio. On face value, the Company registering a profit of \$4.1 million and the portfolio returning a positive performance of +7.13% would normally equate to an average result. However, when factoring in two key points, the first being the +11.86% portfolio performance as at the end of December 2017, and the +24.25% benchmark performance over FY18, the word 'challenging' bears a much greater resemblance to the 2018 financial year.

"Most importantly, what our shareholders expect, and what we expect of ourselves, is that the portfolio of investments should be delivering a return of circa 15% - 20% p.a. over a rolling 5-year period."

ANNUAL RETURNS CHART



Looking at solely industrial type companies, the market clearly had a more mixed return profile; with the S&P/ASX Small Industrials Accumulation Index registering the strongest gain at +18.3% and the S&P/ASX 200 Industrials Accumulation Index registering a gain of just +7.8%.

At NAOS, we pride ourselves on providing NCC shareholders with a long-term, concentrated exposure (0-15 positions) to revenue generating businesses that operate in industrial type industries and are of a size between \$10 million - \$250 million. Overlaying this is our core focus of protecting our shareholders' capital, and endeavouring that our investments meet our environmental, social and governance requirements and philosophy. Most importantly, what our shareholders expect, and what we expect of ourselves, is that the portfolio of investments should be delivering a return of circa 15% - 20% p.a. over a rolling 5-year period. Clearly this year did not assist us in meeting our internal performance hurdle but as I remind myself and others, in FY15 the NCC investment portfolio returned just +1.81%, and in the following year (FY16) the returned +24.77% with predominately the same investments that were held in FY15. It is also worth noting that with many of our investments, NAOS is frequently the only fund manager that holds shares in these businesses due to their size and liquidity profiles, and there is often no external research coverage by brokers or investment banks. We believe both of these factors help create a long-term investment opportunity and provides investors with a truly unique exposure to emerging companies.

Emerging businesses, often referred to as micro-cap businesses, are often influenced by many factors outside of their control, such as limited news flow or poor market sentiment, that affect their share price over the short or medium term. However, over time if these businesses can grow their profits, and generate free cash flow in a sustainable fashion, then the share price should adjust accordingly based on increased earnings, an increasing valuation multiple due to increasing the quality of the earnings, and finally increasing dividend payments.

We believe the NCC portfolio holds several businesses that have over the previous 2-4 years invested heavily in processes, people, distribution, acquisitions and systems, and as these are fully integrated and implemented we believe they will deliver on the potential that I have mentioned in the paragraph above. A company that is perceived to be value today may well turn out to be a growth stock tomorrow, and often it only takes one or two halves of financial results to change this mindset of investors.

The focus for many investors in equity markets both domestically and globally has been very much on returns, but we believe over the next 12-24 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.

# +7.13%

FY18 PORTFOLIO RETURN

## 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

# +121.83%

PORTFOLIO RETURN  
SINCE INCEPTION

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.

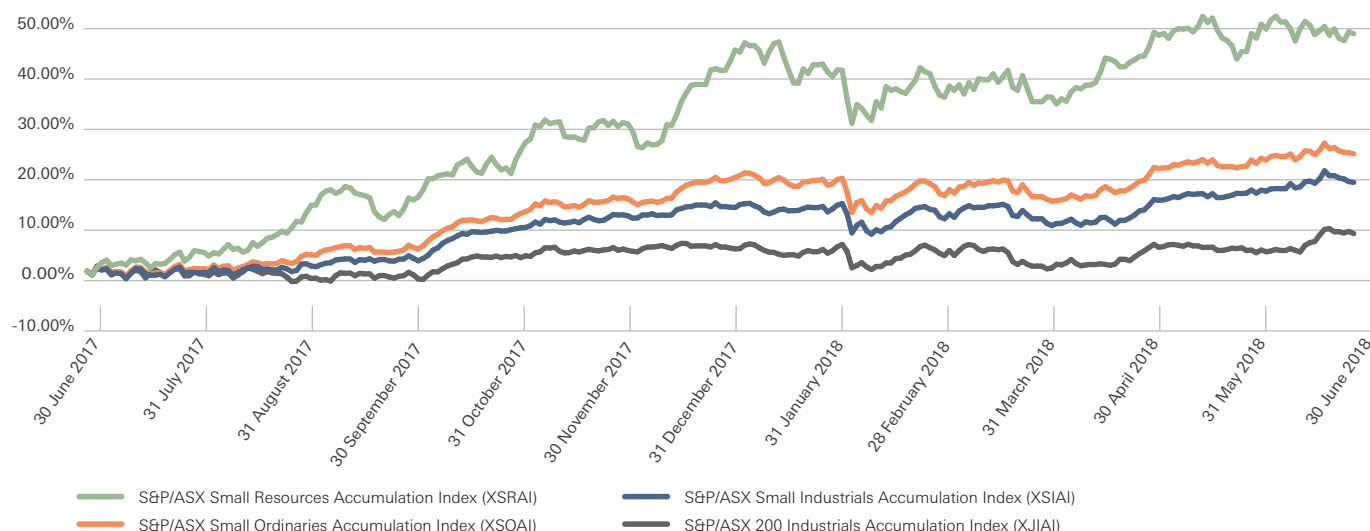
Core to the NAOS investment philosophy is that we will only invest in businesses where we believe we can understand the inputs that drive the long-term valuation and then forecast these inputs over many years to understand what the fair value of a business should be. This is where we believe we can add 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, 5 of these businesses were technology companies, 2 of these were mining services and 1 was heavily reliant on its exporting business to China. This leaves 4 true industrial businesses which were affordable fashion accessory retailer Lovisa (ASX: LOV), US-based fund of funds manager Navigator Global Investments (ASX: NGI), 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





**"We believe that the NCC investment portfolio is entering FY19 on a solid footing, with many of our core investments expected to grow their earnings in a markedly greater manner from their FY18 bases."**

#### LOOKING FORWARD

As mentioned previously we believe that the NCC investment portfolio is entering FY19 on a solid footing, with many of our core investments expected to grow their earnings in a markedly greater manner from their FY18 bases. There was only one change made to the core portfolio in FY18 which was due to valuation and size considerations; what this should represent to external stakeholders is that the investment team believes that our nine current investments represent the best long-term value that we can source within these market dynamics. The portfolio remains fully invested, albeit in businesses that generally have high levels of liquidity and net cash balance sheets. Including the net cash balance sheets of each of our holdings as cash in the investment portfolio would result in the portfolio holding a 'look-through' cash weighting of greater than 15%.

What was detrimental to the performance of the NCC investment portfolio was the lack of positive performance contribution from two of our top five holdings, being Consolidated Operations Group (ASX: COG) and BSA Limited (ASX: BSA). We believe that COG and BSA have clear catalysts that may well drive significant shareholder returns over the next 12 months; but more importantly they are entering the year on sound financial footings with a good level of earnings momentum behind them.

With regards to the other core positions within the portfolio, I will touch on a couple of them below and what we will be looking for from them in FY19:

#### WINGARA AG (ASX: WNR)

We will be looking for three key points in FY19; the first being the financial results of the recently acquired cold storage business, Austco which is based in Laverton within Melbourne. Secondly, we will be looking for the second hay facility in Raywood, Victoria to be completed and operational with a production capacity in excess of 80,000 tonnes per year. Finally, the business needs to demonstrate it can maintain a sound and sustainable EBITDA margin from selling oaten hay domestically, as well as via exporting. This may well be the year that puts WNR on the map due to its significant expected increase in profitability and revenue, as well as its more diversified earnings base.

#### ENERO GROUP (ASX: EGG)

FY19 will be the fifth year that EGG has been held in the NCC investment portfolio. Over the last five years the management team has been able to stabilise what was a volatile business, and then grow their margins through stabilising the revenue line and managing their cost base more efficiently. If the share price of EGG is going to continue to grow (after two years of stagnation) they need to demonstrate to the market that they can grow the revenue base both organically and also through strategic acquisitions that diversify and complement their current offering by service and geography. We believe that EGG has developed significant capability within the PR, digital and creative advertising space in Australia, the US and the UK, and this is poorly understood. If they can continue to work with, and increase the number of large multinational clients (such as General Electric, Travelex, Hyundai and ALDI) then the earnings and share price will re-rate accordingly.

In conclusion, I would like to thank all of our shareholders for their patience, persistence and support over the last financial year. 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 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.

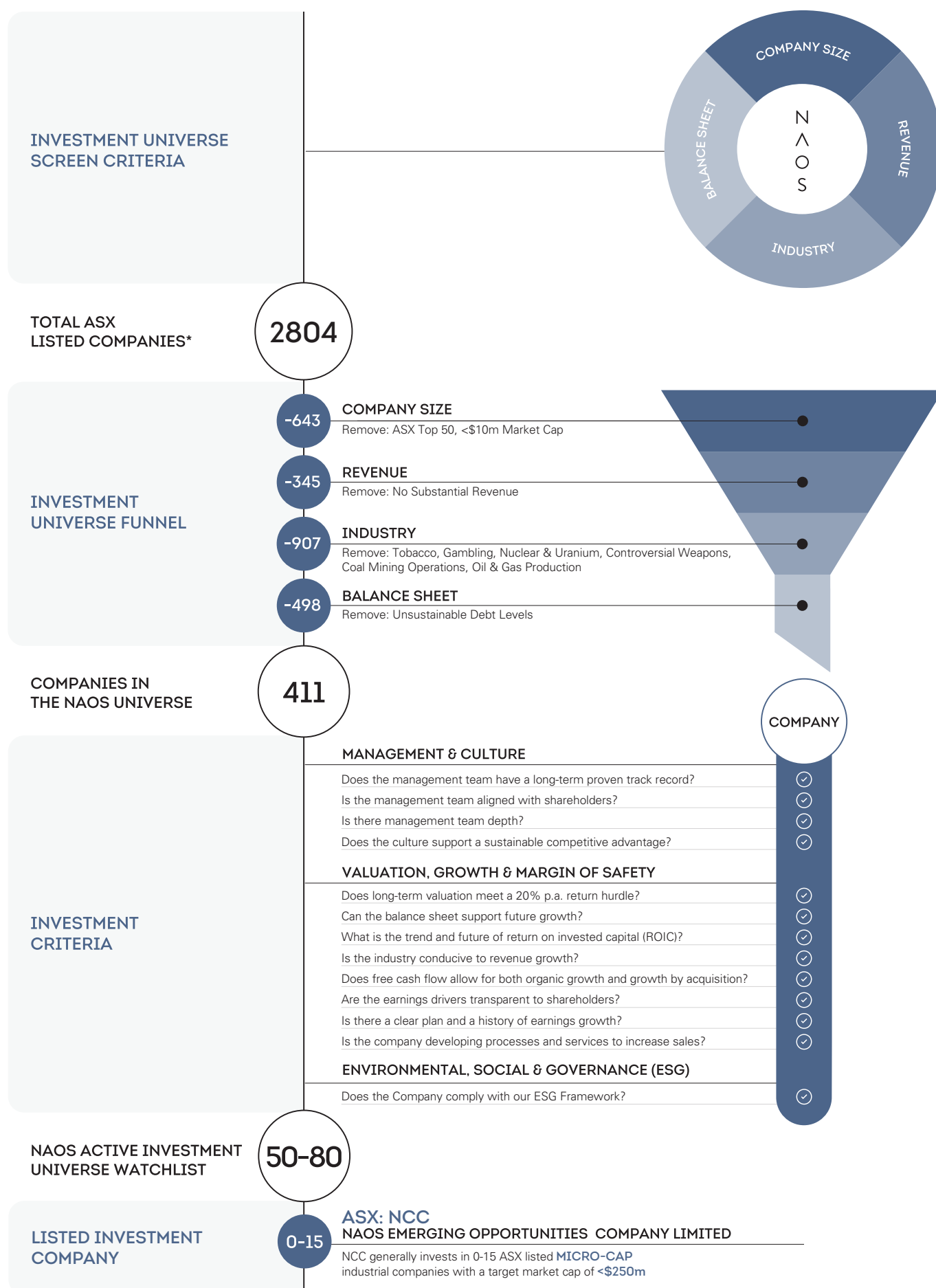


#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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



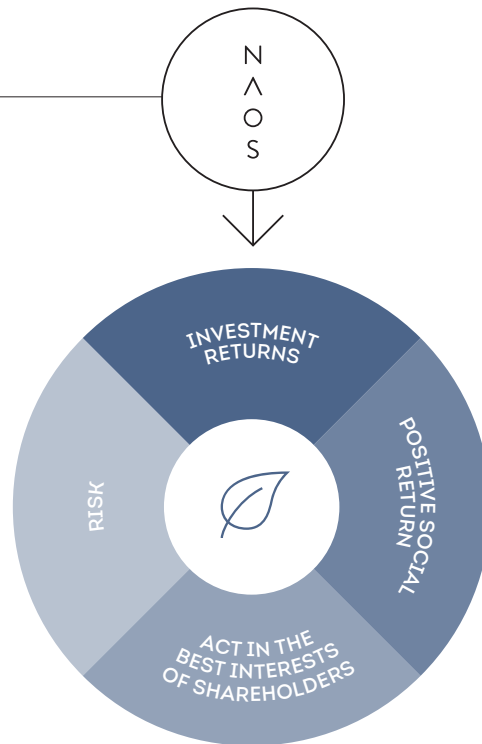
# 01

## 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.

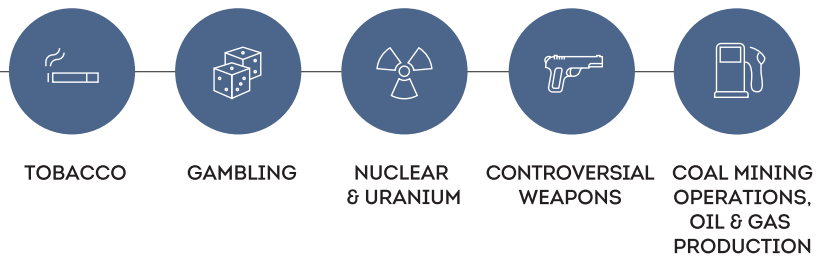
NAOS supports the UN Principles for Responsible Investment and is guided by these principles in incorporating ESG into our investment practices.



# 02

## NEGATIVE SCREENS

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



# 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.



# 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.



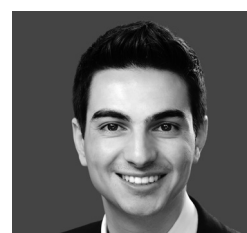
**RACHEL  
FOLDER**

**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.

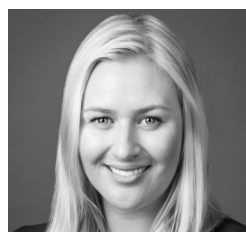
Rajiv holds a Bachelor of Laws (First Class Honours), a Bachelor of Business (Accounting major) and a Graduate Diploma in Legal Practice from the University of Technology, Sydney. He is a member of the Law Society of New South Wales and is admitted to the Supreme Court of New South Wales and the High 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 Emerging 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 of NAOS Emerging Opportunities Company Limited ACN 161 106 510 (the "Company"), submit their report for the Company for the year ended 30 June 2018.

### COMPANY INFORMATION

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Securities Exchange. 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").

### PRINCIPAL ACTIVITIES

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

### DIRECTORS AND OFFICERS

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

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

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

### MEETINGS OF DIRECTORS

The following table shows the number of board meetings held during the financial year ended 30 June 2018.

	Year ended 30 June 2018	
	Eligible to attend	Attended
Mr David Rickards (Chairman)	11	11
Mr Warwick Evans (Director)	11	11
Mr Sebastian Evans (Director)	11	11

### INTEREST IN SHARES OF THE COMPANY

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

	30 June 2018 Relevant interests (Shares)	30 June 2017 Relevant interests (Shares)
Mr David Rickards (Chairman)	697,835	664,555
Mr Warwick Evans (Director)	2,043,018	2,000,193
Mr Sebastian Evans (Director)	1,211,327	1,165,131

### OTHER DIRECTORSHIPS

Sebastian Evans, Warwick Evans and David Rickards are currently directors of the NAOS Ex-50 Opportunities Company Limited (formerly, NAOS Absolute Opportunities Company Limited) and the NAOS Small Cap Opportunities Company Limited. Sebastian Evans and Warwick Evans are also directors of the Investment Manager.

## DIRECTORS' REPORT

Continued

### REVIEW OF OPERATIONS

#### Results

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

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

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Profit before income tax	4,917,418	6,115,405
Income tax expense	(793,053)	(1,529,231)
Profit for the year	4,124,365	4,586,174
Profit for the year attributable to shareholders	4,124,365	4,586,174

#### DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2017 final dividend (declared 24 August 2017)	3.50	2,071,072	100%	1 November 2017
2018 interim dividend (declared 16 February 2018)	3.75	2,227,685	100%	28 March 2018
		4,298,757		

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

Since 30 June 2018, the Board has declared a final dividend of 3.50 cents per share, fully franked, to be paid on 24 October 2018.



## **FINANCIAL POSITION**

The net tangible asset value of the Company as at 30 June 2018 was \$73,679,945 (2017: \$73,177,104). Further information on the financial position of the Company is included in the Chairman's letter.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

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

## **SUBSEQUENT EVENTS**

On 23 August 2018, the Company declared a fully franked dividend of 3.50 cents per share.

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

## **LIKELY DEVELOPMENTS**

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

## **ENVIRONMENTAL REGULATION AND PERFORMANCE**

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

## **INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS**

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

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

## **NON-AUDIT SERVICES**

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

## **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 18.

## 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).

### Remuneration of Directors

The Board from time to time determines the remuneration of non-executive directors within the maximum amount approved by shareholders. This is the only remuneration that directors are entitled to.

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

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

Directors' remuneration received for the year ended 30 June 2018 and the year ended 30 June 2017 is disclosed below:

	Short-term employee benefits Directors' fees \$	Post- employment benefit Superannuation \$	Total \$
<b>30 June 2018</b>			
Mr David Rickards (Chairman)	31,963	3,037	35,000
Mr Warwick Evans (Director)	9,132	868	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,095</b>	<b>3,905</b>	<b>45,000</b>

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

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

## REMUNERATION REPORT – AUDITED (CONTINUED)

### Remuneration of Directors (continued)

During the financial year ended 30 June 2018 and the year ended 30 June 2017, the relevant interests of the directors and their related parties in the shares of the Company were:

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 David Rickards (Chairman)	664,555	33,280	–	697,835
Mr Warwick Evans (Director)	2,000,193	42,825	–	2,043,018
Mr Sebastian Evans (Director)	1,165,131	46,196	–	1,211,327

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

This directors' report is signed in accordance with a resolution of directors of the Company made pursuant to Section 298 (2) of the Corporations Act 2001.



Sebastian Evans  
Director  
23 August 2018





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

23 August 2018

Dear Directors,

**NAOS Emerging Opportunities Company Limited**

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

As lead audit partner for the audit of the financial statements of NAOS Emerging Opportunities Company Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

*DELOITTE TOUCHE TOHMATSU*

DELOITTE TOUCHE TOHMATSU

*David Salmon*

David Salmon  
Partner  
Chartered Accountants

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

### Report on the Audit of the Financial Report

#### Opinion

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

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

- (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

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

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

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

#### Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b><u>Valuation and existence of financial assets held at fair value through profit or loss</u></b></p> <p>As at 30 June 2018, the Company's listed equity securities held at fair value through profit or loss amounted to \$76.4 million as disclosed in Notes 7 and 16.</p> <p>These are the Company's largest assets and they represent the most significant driver of the Company's revenue and its performance.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>evaluating key controls in place at the outsourced service providers (i.e. administrator and custodian) in relation to the valuation and existence of financial assets at fair value through profit or loss, including any exceptions noted;</li> <li>agreeing on a sample basis, the valuation of listed equity securities to an independent pricing source; and</li> <li>agreeing on a sample basis, the investment holdings to the external custodian's holdings statement.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 7 and 16 to the financial statements.</p>



## Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 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 we do not express any form of assurance conclusion thereon.

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

## Responsibilities of the Directors for the Financial Report

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

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

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

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

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

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

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

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

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



#### **Report on the Remuneration Report**

##### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 and 17 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of NAOS Emerging 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.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

*David Salmon*

David Salmon  
Partner  
Chartered Accountants  
Canberra, 23 August 2018



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

	Note	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Income</b>	3	6,459,544	7,801,019
<b>Expenses</b>			
Management fees	15	(1,038,905)	(857,322)
Performance fees	15	–	(342,644)
Administration fees		(70,647)	(63,674)
Directors' remuneration		(45,000)	(45,000)
Australian stock exchange fees		(68,141)	(48,937)
Auditor's remuneration		(38,300)	(36,000)
Custody fees		(26,085)	(42,882)
Registry fees		(53,743)	(63,886)
Company secretarial fees		(31,900)	(30,000)
Other expenses from ordinary activities		(169,405)	(155,269)
<b>Profit before income tax expense</b>		<b>4,917,418</b>	<b>6,115,405</b>
Income tax expense	4(a)	(793,053)	(1,529,231)
<b>Profit for the year attributable to shareholders of the Company</b>		<b>4,124,365</b>	<b>4,586,174</b>
Other comprehensive income, net of tax		–	–
<b>Total comprehensive income for the year attributable to shareholders of the Company</b>		<b>4,124,365</b>	<b>4,586,174</b>
<b>Basic and diluted earnings per share (cents per share)</b>	17	<b>6.94</b>	<b>9.47</b>

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

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

	Note	As at 30 June 2018 \$	As at 30 June 2017 \$
<b>Assets</b>			
Cash and cash equivalents	12(a)	140,630	202,637
Trade and other receivables	6	401,285	1,667,450
Financial assets at fair value through profit or loss	7	76,406,321	76,685,234
Deferred tax assets	4(b)	64,655	206,109
<b>Total assets</b>		<b>77,012,891</b>	<b>78,761,430</b>
<b>Liabilities</b>			
Trade and other payables	8	564,407	858,428
Provision for income tax		1,017,597	1,498,909
Deferred tax liabilities	4(c)	1,750,942	3,226,989
<b>Total liabilities</b>		<b>3,332,946</b>	<b>5,584,326</b>
<b>Net assets</b>		<b>73,679,945</b>	<b>73,177,104</b>
<b>Equity</b>			
Issued capital	9	63,840,245	63,163,012
Profits reserve	10(a)	13,989,653	11,378,853
Accumulated losses	10(b)	(4,149,953)	(1,364,761)
<b>Total equity</b>		<b>73,679,945</b>	<b>73,177,104</b>

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

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

	Issued Capital \$	Accumulated Losses \$	Profits Reserve \$	Total Equity \$
Balance at 1 July 2016	46,678,301	–	8,722,168	55,400,469
Profit for the year	–	4,586,174	–	4,586,174
Transfer to Profits Reserve	–	(5,950,935)	5,950,935	–
Other Comprehensive Income	–	–	–	–
Dividends Paid	–	–	(3,294,250)	(3,294,250)
Shares issued under Dividend Reinvestment Plan	716,825	–	–	716,825
Shares issued under Placement and Share Purchase Plan	15,969,047	–	–	15,969,047
Share placement costs (net of tax)	(201,161)	–	–	(201,161)
<b>Balance at 30 June 2017</b>	<b>63,163,012</b>	<b>(1,364,761)</b>	<b>11,378,853</b>	<b>73,177,104</b>
Profit for the year	–	4,124,365	–	4,124,365
Transfer to Profits Reserve	–	(6,909,557)	6,909,557	–
Other Comprehensive Income	–	–	–	–
Dividends Paid	–	–	(4,298,757)	(4,298,757)
Shares issued under Dividend Reinvestment Plan	677,233	–	–	677,233
<b>Balance at 30 June 2018</b>	<b>63,840,245</b>	<b>(4,149,953)</b>	<b>13,989,653</b>	<b>73,679,945</b>

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

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

	Note	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Cash flows from operating activities</b>			
Dividends received		1,276,323	1,040,985
Interest received		13,231	12,730
Interest paid		(14)	(3,710)
Management fees paid		(1,040,804)	(832,881)
Performance fee paid		(367,716)	(504,837)
Directors' remuneration paid		(45,000)	(45,000)
Income tax paid		(1,291,067)	(1,163,379)
Administration and tax service fee paid		(81,720)	(69,434)
Custody fees paid		(37,129)	(41,134)
Audit fee paid		(32,735)	(43,010)
Registry fee paid		(52,736)	(64,783)
Australian Stock Exchange fee paid		(68,141)	(61,456)
Company secretarial fees paid		(31,900)	(30,000)
Other payments		(151,914)	(144,520)
Other receipts		50,292	7,140
<b>Net cash used in operating activities</b>	12(b)	<b>(1,861,030)</b>	<b>(1,943,289)</b>
<b>Cash flows from investing activities</b>			
Payments towards purchase of investments		(32,284,340)	(51,250,984)
Proceeds from sale of investments		37,688,254	40,765,225
<b>Net cash provided by/(used in) investing activities</b>		<b>5,403,914</b>	<b>(10,485,759)</b>
<b>Cash flows from financing activities</b>			
Receipts from shares issued		–	15,969,047
Placement fees on shares issued		–	(287,373)
Dividends paid		(3,604,891)	(2,559,734)
<b>Net cash (used in)/provided by financing activities</b>		<b>(3,604,891)</b>	<b>13,121,940</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(62,007)</b>	<b>692,892</b>
Cash and cash equivalents at the beginning of the year		202,637	(490,255)
<b>Cash and cash equivalents at the end of the year</b>	12(a)	<b>140,630</b>	<b>202,637</b>
<b>Non-cash activities – Dividend reinvestment</b>		<b>677,233</b>	<b>716,825</b>

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



## GENERAL INFORMATION

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

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

NAOS Asset Management Limited (the "Investment Manager") is the investment manager for the Company. The financial statements were authorised for issue by the Directors on 23 August 2018.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of Preparation

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

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

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

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

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

### b) Prior Year Comparatives

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

### c) Statement of Compliance

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

### d) Reporting Currency

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

### e) Going Concern Basis

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

## f) Revenue and Income Recognition

### Revenue

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

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

### Dividends

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

### Interest Income

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

## g) Cash and Cash Equivalents

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

## h) Investments in Financial Instruments

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

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

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

#### i) Classification

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

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

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

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

#### ii) Recognition/derecognition

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

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

#### (iii) Measurement

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

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

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

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

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

#### i) Expenses

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

#### j) Receivables

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

#### k) Payables

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

#### l) Taxation

The income tax expense comprises of current and deferred tax.

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

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

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

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

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

### l) Taxation (continued)

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

### m) Dividends

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

### n) Foreign Currency Transactions

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

### o) Share Capital

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

### p) Profits Reserve

The profits reserve is made up of amounts transferred from current and retained earnings that are preserved for future dividend payments.

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

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

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

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

### r) Earnings Per Share

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

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

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

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

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 1 July 2017 that have had a material impact on the Company.

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

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 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

The Directors have assessed the impact of the above Australian Accounting Standards and have concluded that the reported results and position of the Company will not change on adoption as they do not result in any changes to any of the Company's existing accounting policies.

## 3. INCOME

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Gains on financial instruments held at fair value through profit or loss	5,169,753	6,841,734
Interest income	13,468	12,300
Dividend income	1,276,323	946,985
	<b>6,459,544</b>	<b>7,801,019</b>

## 4. INCOME TAX

### a) Income Tax Expense

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

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Prima facie income tax expense calculated at 30%	1,475,226	1,834,621
Imputation credit gross up	164,099	130,883
Franking credit offset	(546,995)	(436,273)
Non-assessable items	(299,277)	—
	<b>793,053</b>	<b>1,529,231</b>
Effective tax rate	16%	25%
Total Income tax expense results in a:		
Current tax liability	1,017,597	181,017
Income tax paid	1,110,049	1,317,892
Change in deferred tax liability	(1,476,047)	(450,780)
Change in deferred tax asset	141,454	481,102
	<b>793,053</b>	<b>1,529,231</b>



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 4. INCOME TAX (CONTINUED)

#### b) Deferred Tax Asset

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

	As at 30 June 2018 \$	As at 30 June 2017 \$
Other temporary differences in relation to future deductible liabilities	12,872	120,019
Capitalised share issue and placement costs	51,783	86,090
	<b>64,655</b>	<b>206,109</b>

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Movement in deferred tax assets</b>		
Balance at the beginning of the period	206,109	600,997
Credited/(charged) to the Statement of Profit or Loss and Other Comprehensive Income	(107,147)	(434,863)
Capitalised share issue and placement costs	(34,307)	39,975
<b>At reporting date</b>	<b>64,655</b>	<b>206,109</b>

#### c) Deferred tax Liabilities

	As at 30 June 2018 \$	As at 30 June 2017 \$
Fair value adjustments	1,750,942	3,226,989

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Movement in deferred tax liabilities</b>		
Balance at the beginning of the year	3,226,989	3,677,769
Charged/(credited) to the Statement of Profit or Loss and Other Comprehensive Income	(1,476,047)	(450,780)
<b>At reporting date</b>	<b>1,750,942</b>	<b>3,226,989</b>

## 5. DIVIDEND PAID OR PAYABLE

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2017 final dividend (declared 24 August 2017)	3.50	2,071,072	100%	1 November 2017
2018 interim dividend (declared 16 February 2018)	3.75	2,227,685	100%	28 March 2018
		<b>4,298,757</b>		
Year ended 30 June 2017	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2016 final dividend (declared 25 August 2016)	3.50	1,642,142	100%	11 November 2016
2017 interim dividend (declared 13 February 2017)	3.50	1,652,108	100%	21 April 2017
		<b>3,294,250</b>		

Dividends payable at 30 June 2018 were \$87,659 (2017: \$71,026).

## Dividend Franking Information

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Franking credits available for shareholders from previous financial periods	200,703	53,154
Impact on the franking account of dividends paid during the year	(1,842,325)	(1,411,821)
Impact on the franking account of dividends received during the year	546,995	395,991
Impact on the franking account of income tax paid during the year	1,291,067	1,163,379
Franking account balance at Reporting Date	<b>196,440</b>	<b>200,703</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.

## 6. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 \$	As at 30 June 2017 \$
GST receivable	24,923	57,052
Income tax paid in advance	–	1,317,892
Receivable from investments sold	351,652	249,870
Prepayments	24,473	37,636
Interest receivable	237	5,000
	<b>401,285</b>	<b>1,667,450</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 7. INVESTMENTS IN FINANCIAL INSTRUMENTS

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

	As at 30 June 2018 \$	As at 30 June 2017 \$
Investment in ordinary shares	76,406,321	75,135,224
Investment in unlisted shares	–	1,550,010
<b>Total financial assets at fair value through profit or loss</b>	<b>76,406,321</b>	<b>76,685,234</b>

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

There were no financial liabilities at fair value through profit or loss as at 30 June 2018 (2017: \$nil).

#### Disclosed fair values

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

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

	As at 30 June 2018 \$	As at 30 June 2017 \$
Auditor's remuneration payable	22,123	16,558
Management fee payable	87,617	89,516
Unsettled trades payable	341,679	284,650
Performance fees payable	–	367,716
Dividend payable	87,659	71,026
Other payables	25,329	28,962
<b>Total</b>	<b>564,407</b>	<b>858,428</b>

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

### 9. ISSUED CAPITAL

	30 June 2018		30 June 2017	
	No. of shares	\$	No. of shares	\$
Issued and paid up capital – Ordinary shares	59,673,562	63,840,245	59,173,393	63,163,012

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

Each share will confer on its holder:

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

## 9. ISSUED CAPITAL (CONTINUED)

### Movements in Ordinary Share Capital

Date	Details	No. of shares	Issue price \$	\$
1 July 2016	Opening balance	46,918,297		46,678,301
	Shares issued under Dividend Reinvestment Plan	513,307		716,825
	Shares issued under placement	11,741,789	1.36	15,969,047
	Share placement fees (net of tax)	–		(201,161)
30 June 2017	Closing balance	59,173,393		63,163,012
1 July 2017	Opening balance	59,173,393		63,163,012
	Shares issued under Dividend Reinvestment Plan	500,169		677,233
30 June 2018	Closing balance	59,673,562		63,840,245

## 10. RESERVES

### a) Profits Reserve

	2018 \$	2017 \$
Balance at the beginning of the year	11,378,853	8,722,168
Transfer to Profits Reserve	6,909,557	5,950,935
Dividends Paid	(4,298,757)	(3,294,250)
Balance at Reporting Date	13,989,653	11,378,853

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

### b) Accumulated Losses

	2018 \$	2017 \$
Balance at the beginning of the year	(1,364,761)	–
Transfer to Profits Reserve	(6,909,557)	(5,950,935)
Profit for the year attributable to members of the Company	4,124,365	4,586,174
Balance at Reporting Date	(4,149,953)	(1,364,761)

During the half year period to 30 June 2018, the Company recorded \$2,785,192 of accumulated losses (2017: \$1,364,761).

## 11. AUDITOR'S REMUNERATION

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

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Deloitte Touche Tohmatsu – audit and review of the financial reports	38,300	36,000
Total auditor's remuneration	38,300	36,000

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 12. CASH AND CASH EQUIVALENTS

#### a) Components of Cash and Cash Equivalents

	30 June 2018 \$	30 June 2017 \$
Cash at bank	140,630	202,637

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

	As at 30 June 2018 \$	As at 30 June 2017 \$
Profit for the year attributable to shareholders after tax	4,124,365	4,586,174
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	(5,169,753)	(6,841,734)
Income tax expense recognised in the Statement of Profit or Loss and Other Comprehensive Income	793,053	1,529,231
Income tax paid	(1,291,067)	(1,163,379)
Change in assets and liabilities:		
Increase in trade and other receivables	50,055	101,570
Increase in trade and other payables	(367,683)	(155,151)
Net cash (used in)/provided by operating activities	(1,861,030)	(1,943,289)



### 13. KEY MANAGEMENT PERSONNEL

#### a) Key Management Personnel Compensation

The remuneration of the Company's key management personnel and their related entities for the year ended 30 June 2018 was \$45,000 (2017: \$45,000).

There were no shares granted during the reporting period as compensation to the Directors. (2017: Nil)

#### b) Related Party Shareholdings

##### *NAOS Asset Management Limited*

The Company has outsourced its investment management function to NAOS Asset Management Limited. As at 30 June 2018, NAOS Asset Management Limited holds 789,463 shares (1.32%) (2017: 758,263 shares (1.28%)) in the Company.

Other than the disclosure at Note 15 there were no transactions entered into by the Company with other entities also managed by the key management personnel.

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

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

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 David Rickards (Chairman)	664,555	33,280	–	697,835
Mr Warwick Evans (Director)	2,000,193	42,825	–	2,043,018
Mr Sebastian Evans (Director)	1,165,131	46,196	–	1,211,327
Ordinary shares Year ended 30 June 2017	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	613,415	51,140	–	664,555
Mr Warwick Evans (Director)	1,910,061	90,132	–	2,000,193
Mr Sebastian Evans (Director)	916,590	248,541	–	1,165,131

#### c) Other Transactions within the Company

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

### 14. SEGMENT INFORMATION

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

### 15. RELATED PARTY INFORMATION

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

#### Management Fees

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

The following management fees were paid or payable to the Investment Manager during the year ended 30 June 2018:

- Management fees of \$1,038,905 (2017: \$857,322) (excluding RITC\*) were incurred during the year.
- Management fees payable at 30 June 2018 were \$87,617 (2017: \$89,516) (including RITC\*).

#### Performance Fees

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

The following performance fees were paid or payable to the Investment Manager during the year ended 30 June 2018:

- Performance fees of \$nil (2017: \$342,644) (excluding RITC\*) were incurred during the year.
- Performance fees payable at 30 June 2018 were \$nil (2017: \$367,716) (including RITC\*).

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

### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

#### a) Credit Risk

Credit risk represents the risk that the Company will incur financial loss as a result of a failure by a counterparty to discharge 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 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.

None of the assets exposed to a credit risk are overdue or considered to be impaired.

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

### b) Market Risk

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

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

#### (i) 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.

	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2018</b>			
<b>Assets</b>			
Cash and cash equivalents	140,630	–	140,630
Trade and other receivables	–	401,285	401,285
Financial assets at fair value through profit or loss	–	76,406,321	76,406,321
<b>Total Assets</b>	<b>140,630</b>	<b>76,807,606</b>	<b>76,948,236</b>
<b>Liabilities</b>			
Trade and other payables	–	564,407	564,407
<b>Total Liabilities</b>	<b>–</b>	<b>564,407</b>	<b>564,407</b>
<b>Net exposure</b>	<b>140,630</b>	<b>76,243,199</b>	<b>76,383,829</b>
<b>30 June 2017</b>			
<b>Assets</b>			
Cash and cash equivalents	202,637	–	202,637
Trade and other receivables	–	1,667,450	1,667,450
Financial assets at fair value through profit or loss	–	76,685,234	76,685,234
<b>Total Assets</b>	<b>202,637</b>	<b>78,352,684</b>	<b>78,555,321</b>
<b>Liabilities</b>			
Trade and other payables	–	858,428	858,428
<b>Total Liabilities</b>	<b>–</b>	<b>858,428</b>	<b>858,428</b>
<b>Net exposure</b>	<b>202,637</b>	<b>77,494,256</b>	<b>77,696,893</b>

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

### b) Market Risk (continued)

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

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 \$
30 June 2018		
AUD interest rate	25bps/(25bps)	352/(352)
30 June 2017		
AUD interest rate	25bps/(25bps)	507/(507)

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

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

	Impact on operating profit/ Net assets attributable to shareholders	
	-10% \$	10% \$
30 June 2018	(7,640,632)	7,640,632
30 June 2017	(7,668,523)	7,668,523

#### (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	30 June 2017
Commercial Services and Supplies	32.13%	24.89%
Financials	26.45%	29.22%
Media	12.57%	11.21%
Materials	12.19%	13.14%
Capital Goods	9.50%	0.36%
Agriculture	7.16%	2.73%
Telecommunication Services	–	16.11%
Consumer Durables	–	2.34%
	100%	100%

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

### 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 2017 and 30 June 2018 to the contractual maturity date.

	30 June 2018			Total \$
	On demand \$	< 1 month \$	> 12 months \$	
Trade and other payables	–	564,407	–	564,407
<b>Total financial liabilities</b>	–	<b>564,407</b>	–	<b>564,407</b>
	30 June 2017			Total \$
	On demand \$	< 1 month \$	> 12 months \$	
Trade and other payables	–	858,428	–	858,428
<b>Total financial liabilities</b>	–	<b>858,428</b>	–	<b>858,428</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.

### 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.

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the quoted closing prices at the end of the reporting period.

Included within Level 2 of the hierarchy are unlisted investments. The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. As at 30 June 2018 the Company had \$nil (2017: \$1,550,010) financial instruments in Level 2.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

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

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
30 June 2018				
Financial assets	76,406,321	–	–	76,406,321
<b>Total</b>	<b>76,406,321</b>	<b>–</b>	<b>–</b>	<b>76,406,321</b>
30 June 2017				
Financial assets	75,135,224	1,550,010	–	76,685,234
<b>Total</b>	<b>75,135,224</b>	<b>1,550,010</b>	<b>–</b>	<b>76,685,234</b>

##### Reconciliation of Level 3 fair values

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

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Opening balance	–	1,451,819
Conversion of Note	–	(1,550,010)
Unrealised gain on financial instruments held at fair value through profit or loss	–	98,191
Closing balance	–	–
<b>Total accumulated losses on Level 3 financial assets</b>	<b>–</b>	<b>(149,990)</b>

#### 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 reserves as disclosed in Notes 9 and 10 respectively. The Company is not subject to externally imposed capital requirements. The Company's objectives for managing capital are:

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



## 17. EARNINGS PER SHARE

	Year ended 30 June 2018 cents	Year ended 30 June 2017 cents
Basic and diluted earnings per share	6.94	9.47
	Units	Units
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	59,416,681	48,434,835
	\$	\$
Net profit used in the calculation of basic and diluted earnings per share	4,124,365	4,586,174

## 18. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies at 30 June 2018 (2017: \$nil).

## 19. SUBSEQUENT EVENTS

On 23 August 2018, the Company declared a fully franked dividend of 3.50 cents per share.

Other than the matters described above, there has been no matter or circumstance 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 Emerging Opportunities Company Limited, we declare that:

In the opinion of the Directors:

- the financial statements and notes are in accordance with the Corporations Act 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the financial year ended 30 June 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 295(5) of the Corporations Act 2001.

On behalf of the Board



Sebastian Evans  
23 August 2018

## ADDITIONAL INFORMATION

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  
BTC Health Limited  
BSA Limited  
Careers Multilist Limited  
Consolidated Operations Group Limited  
Contango Asset Management Limited  
Enero Group Limited  
Saunders International Limited  
Wingara AG Limited

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During the financial year ended 30 June 2018, the Company had 663 (2017: 897) transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2018 were \$244,108 (2017: \$296,913).

### **20. LARGEST SHAREHOLDERS**

Details of the 20 largest ordinary shareholders and their respective holdings as at 31 July 2018.

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	3,973,387	6.66%
Myall Resources Pty Ltd	2,611,029	4.38%
Nivesa Pty Ltd	1,725,078	2.89%
Myall Resources Pty Ltd	1,229,588	2.06%
Patagorang Superannuation Pty Ltd	797,019	1.34%
NAOS Asset Management Limited	789,463	1.32%
Equitas Nominees Pty Limited	646,806	1.08%
IR And JB Investments Pty Ltd	585,271	0.98%
Mr Mark John Bahen & Mrs Margaret Patricia Bahen	475,400	0.80%
Woodduck Pty Ltd	419,851	0.70%
Burtoh Ventures Pty Ltd	411,329	0.69%
Bonsoir Pty Ltd	394,509	0.66%
Mr William Blomfield	350,000	0.59%
W W E Investments Pty Ltd	317,940	0.53%
Tilt Consulting Pty Ltd	295,884	0.50%
Raystall Pty Ltd	265,000	0.44%
Blu Bone Pty Ltd	262,403	0.44%
Navigator Australia Ltd	260,778	0.44%
Australian Executor Trustees Limited (No 1 Account)	260,480	0.44%
Dasi Investments Pty Ltd	250,000	0.42%
<b>Total</b>	<b>16,321,215</b>	<b>27.36%</b>

## ADDITIONAL INFORMATION

Continued

### SUBSTANTIAL SHAREHOLDERS

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	3,973,387	6.66%

### DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shares by size of shareholders as at 31 July 2018.

Category	Number of shareholders	Ordinary shares held	% of issued shares
1-1,000	148	81,691	0.14%
1,001-5,000	295	900,056	1.51%
5,001-10,000	330	2,533,079	4.25%
10,001-100,000	1,090	32,233,786	54.02%
100,001 and over	69	23,924,950	40.09%
Total	1,932	59,673,562	100.00%

### VOTING RIGHTS

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

### ASX LISTING

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

### BUY BACK

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

### UNMARKETABLE PARCELS

As at 31 July 2018, the Company had 44 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.

### **DIRECTORS**

David Rickards (Independent Chairman)

Warwick Evans (Director)

Sebastian Evans (Director)

### **COMPANY SECRETARY**

Rajiv Sharma

### **REGISTERED OFFICE**

Level 34, MLC Centre

19 Martin Place

Sydney NSW 2000

Telephone: (02) 9002 1576

### **INVESTMENT MANAGER**

NAOS Asset Management Limited

Level 34, MLC Centre

19 Martin Place

Sydney NSW 2000

(Australian Financial Services Licence Number: 273529)

Telephone: (02) 9002 1576

Facsimile: (02) 8215 0037

### **SHARE REGISTRY**

Boardroom Pty Limited

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225 George Street

Sydney NSW 2000

Telephone: 1300 737 760

Facsimile: 1300 653 459

### **AUDITOR**

Deloitte Touche Tohmatsu

Level 1, Grosvenor Place

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Sydney NSW 2000



