NAOS SMALL CAP
OPPORTUNITIES
COMPANY LIMITED

ABN 47 107 617 381

NAOS

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

T (02) 9002 1576
F (02) 8215 0037
E enquiries@naos.com.au

www.naos.com.au

NAOS Small Cap Opportunities Company Limited

ASX Code: NSC ACN: 107 617 381

Appendix 4E | Results for Announcement to the Market

Results Announcement for the year ended 30 June 2019

All comparisons are to the year ended 30 June 2018

	$'000	up/down	% change
Revenue from ordinary activities	(21,719)	down	-327%
Loss from ordinary activities before tax attributable to shareholders	(26,544)	down	-1,087%
Loss from ordinary activities after tax attributable to shareholders	(17,702)	down	-473%

Dividend Information	Cents per share	Franked amount per share	Tax rate for franking
2019 Final quarterly dividend	0.50	0.50	30%
2019 First quarterly dividend	1.35	1.35	30%
2019 Second quarterly dividend	1.15	1.15	30%
2019 Third quarterly dividend	1.00	1.00	30%

Final Dividend Dates	
Ex-dividend date	2 September 2019
Record date	3 September 2019
Last date for DRP election	4 September 2019
Payment date	16 September 2019

Dividend Reinvestment Plan

The Dividend Reinvestment Plan is in operation and the recommended fully franked final quarterly dividend of 0.50 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.

	30 June 2019 $	30 June 2018 $
(Post Tax) Net tangible asset backing per share	0.75	0.92

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.

NAOS

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

Annual Report 2019

ACN 107 617 381
ASX: NSC

CONTENTS

KEY DATES

2019 ANNUAL GENERAL MEETING

AGM to be held at 12:00 noon (AEDT)
on Thursday 14 November 2019
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.

PERTH

Tuesday 10 September 2019

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

MELBOURNE

Thursday 12 September 2019

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

BRISBANE

Tuesday 17 September 2019

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

SYDNEY

Thursday 19 September 2019

11:00am-12:30pm
State Library of NSW
Corner Macquarie Street
and Shakespeare Place
Sydney NSW 2000

ADELAIDE

Tuesday 24 September 2019

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

CANBERRA

Thursday 26 September 2019

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

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

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

KEY METRICS AS AT 30 JUNE 2019

Pre-tax Net Tangible Assets	$0.70
Post-tax Net Tangible Assets	$0.75
Share Price	$0.565
Fully Franked FY19 Dividend	4.0 cents
Fully Franked Dividend Yield	7.08%
Shares on Issue	166,936,029
Directors' Shareholding	1,960,054
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	$101.20
Market Capitalisation	$94.32 million

INVESTMENT PORTFOLIO PERFORMANCE AS AT 30 JUNE 2019

	1 MONTH	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC INVESTMENT PORTFOLIO PERFORMANCE*	+1.33%	-13.29%	-10.63%	-16.27%
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX (XSOAI)	+0.92%	+1.92%	+6.28%	+10.10%
PERFORMANCE RELATIVE TO BENCHMARK	+0.41%	-15.21%	-16.91%	-26.37%

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

SEBASTIAN EVANS

Director

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

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

WARWICK EVANS

Director

Warwick Evans has been a Director of the Company since 20 October 2017. Warwick is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and NAOS Asset Management Limited, the Investment Manager.

Warwick has over 35 years of equity markets experience, most notably as Managing Director for Macquarie Equities (globally) from 1991 to 2001 as well as being an Executive Director for Macquarie Group. He was the founding Chairman and CEO of the Newcastle Stock Exchange (NSX), and was also the Chairman of the Australian Stockbrokers Association. Prior to these positions he was an Executive Director at County NatWest.

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

DAVID RICKARDS

Independent Director

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

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

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

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

TREVOR CARROLL

Independent Chairman

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

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

He is an emeritus member of the Australian Industry Group Board, where he was National President between 2006 and 2008. Trevor holds a Bachelor of Commerce from Canterbury University (NZ).

Dear Fellow Shareholders,

Welcome to the 2019 Annual Report for the NAOS Small Cap Opportunities Company Limited. The Board would like to thank all our shareholders, including more than 700 new shareholders who joined the Company during the financial year, for their continued support.

For the financial year ended 30 June 2019, the Company recorded an after-tax loss of $17.7 million with the second half performance showing a marked improvement over a disappointing first half year. The Company declared dividends over this period totaling 4 cents per share, all of which have been fully franked and declared on a quarterly basis. The Board remains mindful of the need to balance the current share price by providing shareholders with a regular stream of fully franked dividends whilst maintaining profit reserves during times of stronger performance.

The share price closed the financial year at $0.565 which represented a significant discount to pre-tax net tangible asset backing (NTA) of 19.29%, causing the share price to lag the investment portfolio performance.

To address the discount to NTA, the Board announced an on-market buy-back (Buy-Back Program) during March 2019. As the buy-back of shares by the Company at a discount is accretive to NTA per share, the Board considers the Buy-Back Program to be an effective use of the Company's capital and in the interests of all shareholders. The total number of shares purchased under the Buy-Back Program was 2,059,777 to 30 June 2019.

The Buy-Back Program complements several other strategic initiatives implemented by the Company in seeking to deliver value to shareholders. These include delivering quarterly dividends and lowering both management fees and other operating expenses of the Company. The Company continued the previously announced policy and did not issue any shares at a discount as the dividend reinvestment plan (DRP) capital management initiative was completed through acquiring shares on-market, thereby eliminating any dilution for existing shareholders.

NSC FULLY FRANKED DIVIDEND

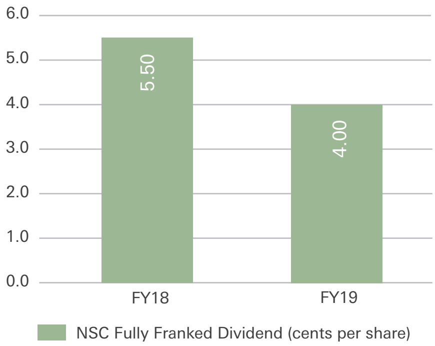


Figure 1.

SHARES PURCHASED (BUY-BACK PROGRAM)

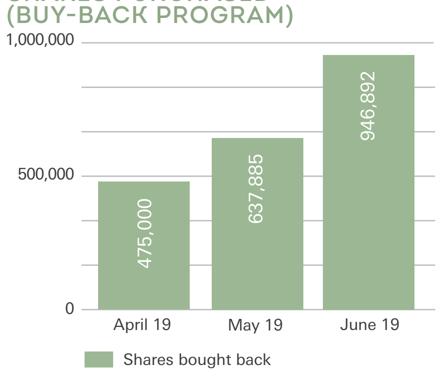


Figure 2.

The investment portfolio produced a return of –13.29% for the financial year ended 30 June 2019, underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which produced a positive return of +1.92%. Given the concentrated industrial nature of the portfolio, performance differing to the broader market will occur from time to time as evidenced during FY19. The Company remains focused on capital preservation and continues to target long-term capital growth above the benchmark index with a lower volatility than that of the wider market.

The Company offers what we believe is the only Listed Investment Company ('LIC') that provides a genuine long-term concentrated exposure to small-cap industrial businesses. This concentrated long-term approach is reflected by the 13 positions held as at 30 June 2019, seven of which have been held since the inception of the investment portfolio in December 2017.

The Board is disappointed that this year the Company has not provided shareholders with satisfactory returns and that the discount to NTA has endured over the financial year.

It has been a very difficult year for most small-cap companies, with the market favouring a select number of specialty companies in the technology sector. The investment management team continues to work proactively with the Boards and management teams of all the portfolio companies and the Board continues to believe that the strategy of focusing on a concentrated investment portfolio, providing a regular stream of fully franked dividends, transparent communications plus aligning the manager and Board with all shareholders of the Company will provide satisfactory returns plus NTA growth over the long term. Reflecting this confidence, Directors' shareholdings increased during the year and now total 1.96 million shares.

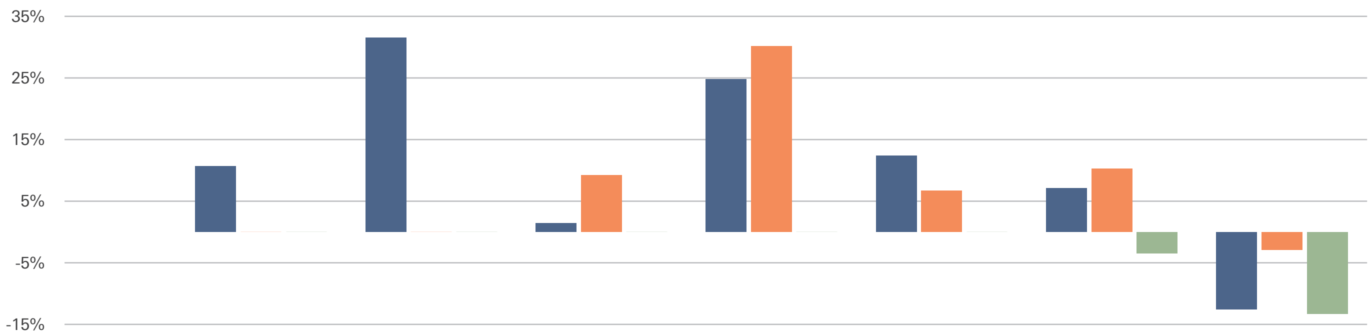
On behalf of the Board of Directors I would like to thank all the staff of the Investment Manager for their continued efforts and dedication throughout the year.

Trevor Carroll
Independent Chairman
22 August 2019

Dear Fellow Shareholders,

Financial year 2019 marked the first full year of operations for the NAOS Small Cap Opportunities Company Limited ('NSC' or 'the Company') under the management of NAOS Asset Management. It was a disappointing year with the portfolio returning -13.29% which was a poor result both in absolute and relative performance terms as the Benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') increased by +1.92%. The NAOS investment team experienced a poor year across all of our investment strategies with the first year of negative performance from our two longer running LICs, NAOS Emerging Opportunities Company (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

INVESTMENT PORTFOLIO PERFORMANCE OF NAOS STRATEGIES – FINANCIAL YEAR RETURNS



	FY2013 (PART YEAR NCC)	FY2014	FY2015 (PART YEAR NAC)	FY2016	FY2017	FY2018 (PART YEAR NSC)	FY2019
NCC	10.67%	31.54%	1.43%	24.77%	12.39%	7.13%	–12.51%
NAC			9.21%	30.16%	6.69%	10.25%	–2.86%
NSC						–3.44%	–13.29%

Figure 1. Performance returns are 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.

NAOS prides itself on offering what we believe is the only Listed Investment Company ('LIC') that provides genuine long-term concentrated exposure to small-cap industrial businesses regardless of their size or liquidity. Our concentrated portfolio structure is implemented by selecting 10-20 businesses that in our view represent sound long-term value. As seen in Figure 1, this investment philosophy has proven to be successful over the long term, though clearly when investing in a concentrated manner into a specialised segment of the market there will be times when performance will deviate significantly from the wider market both in positive and negative terms.

The following points address what I believe to be the most important items for shareholders to consider when reviewing our performance during FY19; each of these will be covered in more detail throughout this report:

- High growth and technology stocks outperform (again)
- The NSC investments which grew their earnings in FY19
- How much is the market willing to pay for businesses?
- Continue to focus on the controllable
- Activist investing
- Looking forward

“When investing in a concentrated manner into a specialised segment of the market there will be times when the performance will deviate significantly from the wider market in both positive and negative terms.”

HIGH GROWTH AND TECHNOLOGY STOCKS OUTPERFORM (AGAIN)

Standing out as the key theme of FY19 was the continued strong performance of high growth stocks, many of which were technology-based businesses. As highlighted in the table below, seven of the top 10 contributors to the S&P/ASX Small Ordinaries Index (XSO) were high growth businesses, and cumulatively they contributed 125.5 points to the XSO movement for the year, with the entire index ending 24.4 points lower, or –0.85%. If these seven businesses were removed, then the return for XSO would have been –5.25% for FY19.

It is worth highlighting that we believe most of the companies below have solid business models. What we have clearly underestimated though is how much the market has been willing to pay for such businesses. Many of these companies are not yet cash flow positive let alone profitable, as they have continued to invest heavily in growing their respective revenue lines at a very fast pace. As we can see in the table below, the average earnings before interest, tax, depreciation and amortisation (EV/EBITDA) multiple being applied to these businesses is now north of 110 times based on the FY19 earnings expectations from the market.

HIGH GROWTH AND TECHNOLOGY STOCKS OUTPERFORM

COMPANY	% PRICE CHANGE FY19	INDEX POINTS ADDED FY19 TO XSO	FY19 EXPECTED EBITDA	FY19 EXPECTED EV/EBITDA
Afterpay Touch (ASX: APT)	+155.10%	33.3	$17,018,000	384.84
Wisetech Global (ASX: WTC)	+77.20%	20.5	$106,111,000	86.96
Appen (ASX: APX)	+110.30%	20.2	$89,517,000	40.47
IDP Education (ASX: IEL)	+70.40%	13.6	$114,571,000	40.35
Technology One (ASX: TNE)	+88.70%	13.4	$78,786,000	31.86
Altium (ASX: ALU)	+32.80%	12.9	$65,550,000	48.33
Nearmap (ASX: NEA)	+117.20%	11.6	$11,740,000	140.65
TOTAL		125.5		
AVERAGE			$69,041,857	110.49

Table 1 Source: UBS Commentary 30 June 2019.

This ultimately begs the question, what is a fair valuation multiple for a company that is growing its revenue base at an above market rate? Table 2 below looks at this question by answering it in reverse, assessing how growth prospects and valuation multiples are being factored in to justify the current share prices.

The table assumes that a company earns $100 in EBITDA today and is valued at 110 times EV/EBITDA as per the average from the table above (assuming it has 1,000 shares on issue). If we assume that in five years’ time this company commands a lower or market average valuation multiple (as tends to be the case as businesses mature), then the EBITDA needs to grow at 50% every year for five years to maintain today’s share price of just over $11. Note the five-year forecast does not factor in the free cash flow build-up that may occur over time.

GROWTH PROSPECTS AND VALUATION MULTIPLES

	FY19	FY20	FY21	FY22	FY23	FY24
EBITDA	$100	$150	$225	$338	$506	$759
Share Price	$11.00	$13.50	$18.00	$16.88	$17.72	$11.39
EBITDA Valuation Multiple	110	90	80	50	35	15
EBITDA Growth p.a.	50%					

Table 2.

> "Clearly over the last year the market has been willing to pay less and less for small and micro-cap industrial companies."

It is not beyond the realms of possibility that a couple of these businesses may well grow at a rate above this figure and therefore command a multiple that is higher than 15 times EBITDA in five years. However, in our view when considering several variables and risks such as cost base, saleability, competitive landscape, regulatory issues, product re-investment and product distribution models, there is significant uncertainty around the profitability and cash flow generation of these businesses over this time horizon.

THE NSC INVESTMENTS WHICH GREW THEIR EARNINGS IN FY19

An objective way to review the performance of our core investments over the past 12 months is to analyse whether each individual investment held managed to grow its underlying EBITDA from FY18 to FY19.

Companies that we believe will be able to grow their EBITDA include:

- BSA Limited (ASX: BSA)
- Consolidated Operations Group (ASX: COG)
- Enero Group (ASX: EGG)
- MNF Group (ASX: MNF)
- Over The Wire (ASX: OTW)
- 360 Total Return Fund (ASX: TOT)

Companies that did not make any substantial improvement to revenue or EBITDA include:

- Big River Group (ASX: BRI)
- Japara Healthcare (ASX: JHC)
- Motorcycle Holdings (ASX: MTO)

As you would expect BRI, JHC and MTO were all key detractors to performance over FY19, and JHC was removed from the portfolio as a result of the significant increase in regulatory risk post the announcement of the Royal Commission into aged care. Surprisingly, a business which made significant progress on both a financial and business strategy front, run by a proven management team, was the largest detractor; this business was MNF Group. BSA, EGG and OTW were strong outperformers with TOT also contributing positively.

Obviously share prices do not go up in a straight line, however it is imperative for us to minimise any potential performance drawdowns. It is our view that share prices are driven by near-term earnings and many investors fail to adequately factor in short-term variables such as re-investment, acquisitions and industry variables which can allow share prices to significantly overshoot both on the downside and upside.

HOW MUCH IS THE MARKET WILLING TO PAY FOR BUSINESSES?

Clearly over the last year the market has been willing to pay less and less for small and micro-cap industrial companies. We believe this has been driven by several variables including the flight to liquidity (i.e. more investors being invested in larger companies and ETFs), investor worries around the macro backdrop, and a lack of transparency (news flow) from many of these smaller companies, especially when compared to their larger counterparts.

The obvious question to ask is that if many of our investments grew their EBITDA and, in our view, have stronger businesses today than they did 12 months ago, why have their share prices fallen or remained flat?

What we as an investment management team failed to predict in FY19 were the valuation multiples that the market was prepared to value these businesses on over the short term. In our view, for many of our core investments these valuations were made with no regard for previous financial performance. To illustrate an example of this, in FY18 MNF traded on an EV/EBITDA multiple of 16.19 times; based on its guidance for FY19 this multiple has reduced to just 11.37 times. Assuming MNF can achieve its FY20 guided earnings the EV/EBITDA multiple drops to 9.07 times.

Another more extreme example is MTO, which traded on a price to earnings (P/E) multiple of 16.08 and 19.88 in FY17 and FY18 respectively. Assuming MTO can meet its FY19 earnings guidance, then the P/E for FY19 is only 8.26. Clearly one must appreciate other variables such as increased gearing levels, but you would expect that after several years of falling industry statistics the P/E valuation would move higher to anticipate some sort of cyclical recovery. Hypothetically, if we assume motorcycle sales achieve a modest 5% growth rate in FY20, and MTO continues with cost cutting initiatives whilst maintaining a relatively fixed cost base, its earnings base could easily grow by 10% which we believe could see the P/E of MTO expand to 14.50 times.

Based upon these variables the potential total return prior to any dividend would be approximately 85%. Of the potential 85% return that may eventuate, 75% of this share price appreciation could come from the expansion in the earnings multiple before any earnings growth is factored in. It is important for all investors to remember that it is the market's perception of value that can have the most significant impact on short and long-term valuations.

So, what do we do next?

CONTINUE TO FOCUS ON THE CONTROLLABLE

Clearly the performance of the NSC investment portfolio was extremely disappointing in FY19, as it was across our two other investment strategies. What does provide us with confidence in our process is that our longest running LIC, NCC, which fell by –12.50% for FY19, has still significantly outperformed the benchmark index (XSOAI) since the Company's inception in 2013. The investment beliefs and process we apply to NSC are the same as NCC, albeit focusing on slightly larger businesses.

The foundations of how we manage investments should in theory be very simple. We seek to invest in businesses with proven business models, run by proven and aligned management teams, with balance sheets that provide the financial flexibility to execute their respective strategies; and finally, operate in industries supported by sound long-term fundamentals.

In my view, one thing that makes funds management more complex is the day to day pricing of securities on the stock market which can lead to poor and irrational decision making, often led by emotion, and without a focus on the long-term objectives of the underlying businesses. In ASX listed businesses considered micro-caps or small-caps this phenomenon is amplified by reduced liquidity, and more recently by an exodus of small-cap fund managers who have been forced by investor redemptions to withdraw from investing in this space.

As an investment team we will continue to invest in businesses that we believe meet our controllable criteria, which is described in the figure below. We steadfastly believe that if we continue to invest in businesses meeting these criteria then we will give the portfolio the best possible likelihood of delivering significant performance over the long term; and just as importantly, minimising any potential investment delivering a permanent capital loss.

ACTIVIST INVESTING

Over the past 12 months NAOS has worked with several board and management teams of our investments to ensure shareholder value will be maximised over the long term. All companies are run for shareholders and we believe that this is something that can often be forgotten by boards and management teams, especially when it comes to shareholder communications and capital allocation. We will continue to ensure that our investee companies maintain a sustained focus on:

- Capital allocation (buy-backs, dividends, acquisitions and investments);
- Shareholder communications (transparency, consistency and timeliness);

FOCUS ON THE CONTROLLABLE

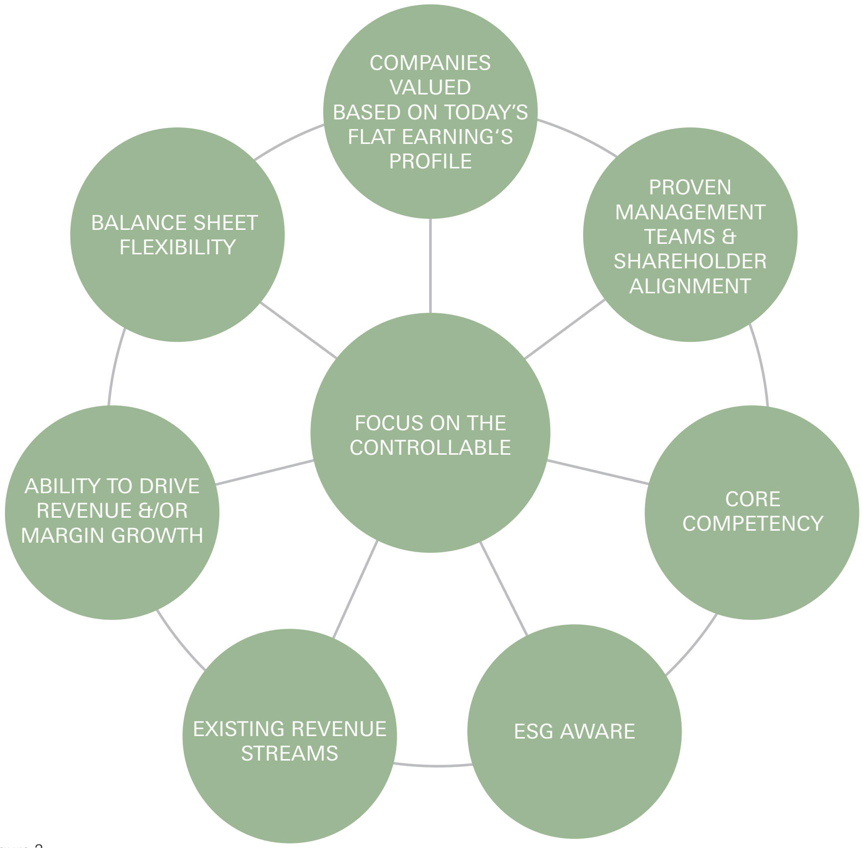


Figure 2.

"We believe the portfolio is entering FY20 with a bright future, as many of our investments have made significant progress over the previous two years that is yet to flow through to a much-improved financial performance."

- Board makeup (relevant experience, alignment and track record); and
- A continued focus on long-term strategy (is the strategy still valid and if not, what is the best course of action?).

LOOKING FORWARD

It is impossible for a fund manager or any investor to accurately predict the future, but I believe it is important to provide our shareholders with an insight into how we believe the portfolio is shaped for the future, especially as many of our investments may well still be with us at the end of FY20.

We believe the portfolio is entering FY20 with a bright future, as many of our investments have made significant progress over the previous two years that is yet to flow through to a much-improved financial performance. Listed businesses demonstrating the ability to develop a sustainable competitive advantage, which is frequently preceded by significant investment, often see increased profitability as a longer-term outcome. In our view there are four stand-out businesses within the investment portfolio which fall into this category, namely MNF Group (ASX: MNF), Consolidated Operations Group (ASX: COG), BSA Limited (ASX: BSA) and Enero Group (ASX: EGG). To highlight an example of a business that we believe made significant progress in FY19 but is yet to see a much-improved financial performance, MNF's FY19 progress and outlook is detailed below.

MNF GROUP (ASX: MNF)

MNF Group is the largest investment by size and market capitalisation within the NSC investment portfolio and unfortunately was a significant performance detractor during FY19. The NAOS investment team have followed and invested in MNF for many years, and to provide context around the longevity and success of MNF as a business it has been able to grow its EBITDA from $1 million in FY10 to circa $33 million (assuming it meets FY20 guidance).

FY19 was a year when EBITDA was likely to increase slightly due to the recent acquisition of the wholesale business of IAB Holdings (ASX: IAB), although organic earnings are more likely to be flat given MNF has gone through a period of significant investment with its voice over internet protocol (VOIP) network now up and running in New Zealand, and its Singapore network due to be completed in November this year.

Earnings from these two networks will begin to have a substantial effect in FY20 and FY21, and together with the integration of IAB we believe the earnings momentum going into these two years will be significant. Importantly, in our view the existing core operations of MNF have been growing very strongly and this has not yet translated through to the EBITDA line due to the significant investment in staff, together with earnings degradation within the non-core minutes trading business which commands much lower margins.

Heading into FY20 and FY21 we believe that >75% of the gross profit generated by MNF will be recurring in nature with a significant portion of this derived from household name businesses within the technology industry, many of which will continue to bring new services to market. These capabilities will rely on a third party provider such as MNF to facilitate communication via voice, text or video to ensure they can operate at the required level in Australia, and potentially New Zealand and Singapore. To further highlight this growth opportunity, global research firm Gartner expects Communications Platform as a Service (CPaaS) and Unified Communication as a Service (UCaaS) markets to grow at 40% p.a. and 12% p.a. respectively over the next four years, underscoring the scale of the opportunity for MNF.

Finally, I would like to thank shareholders for their continued support and welcome all new shareholders who joined the register during FY19. The Board, management team and I are significant shareholders in NSC; so we are very much aligned and plan to achieve the best outcome for all shareholders over the long term.

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

NAOS ASSET MANAGEMENT is a specialist fund manager providing genuine long-term 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 10 to 20.

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.

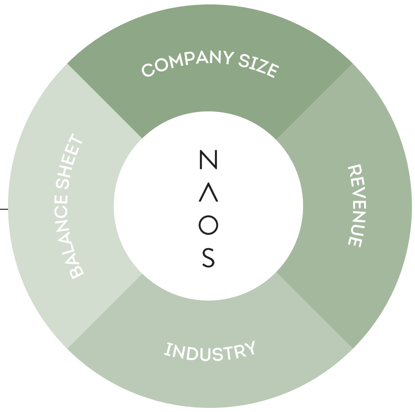
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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

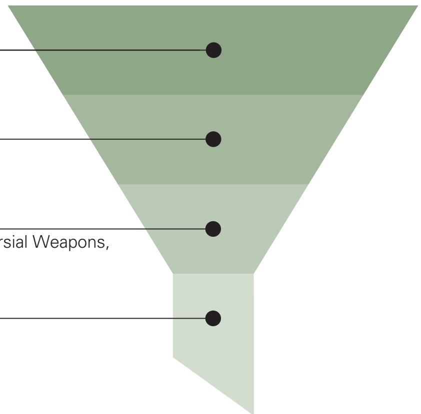
OUR INVESTMENT PROCESS

INVESTMENT UNIVERSE SCREEN CRITERIA



TOTAL ASX LISTED COMPANIES* — **2568**

INVESTMENT UNIVERSE FUNNEL



-1168 — **COMPANY SIZE**
Remove: ASX Top 50, <$10m Market Cap

-504 — **REVENUE**
Remove: No Substantial Revenue

-200 — **INDUSTRY**
Remove: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production

-400 — **BALANCE SHEET**
Remove: Unsustainable Debt Levels

COMPANIES IN THE NAOS UNIVERSE — **296**

INVESTMENT CRITERIA

COMPANY

MANAGEMENT & CULTURE

- Does the management team have a long-term proven track record?
- Is the management team aligned with shareholders?
- Is there management team depth?
- Does the culture support a sustainable competitive advantage?

VALUATION, GROWTH & MARGIN OF SAFETY

- Does long-term valuation meet a 20% p.a. return hurdle?
- Can the balance sheet support future growth?
- What is the trend and future of return on invested capital (ROIC)?
- Is the industry conducive to revenue growth?
- Does free cash flow allow for both organic growth and growth by acquisition?
- Are the earnings drivers transparent to shareholders?
- Is there a clear plan and a history of earnings growth?
- Is the company developing processes and services to increase sales?

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

- Does the Company comply with our ESG Framework?

NAOS ACTIVE INVESTMENT UNIVERSE WATCHLIST — **50-80**

LISTED INVESTMENT COMPANY

0-30

ASX: NSC
NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
NSC generally invests in 0-30 ASX listed SMALL-CAP industrial companies with a target market cap of <$100m-$1b

* Source: Bloomberg Data June 2019

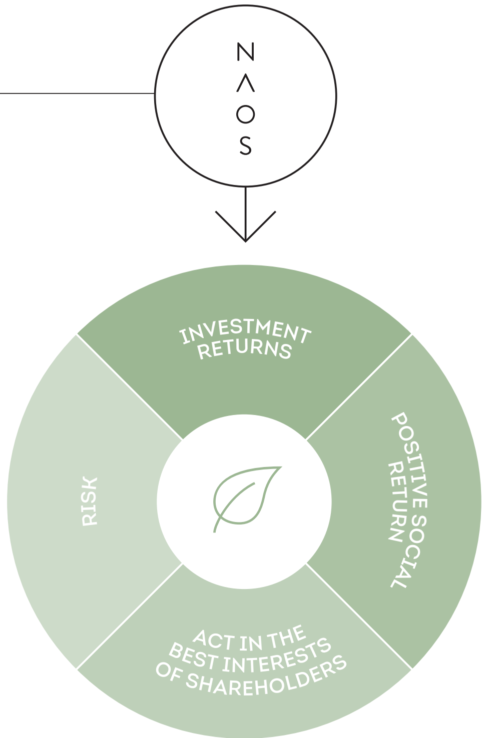
01

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.

- TOBACCO
- GAMBLING
- NUCLEAR & URANIUM
- CONTROVERSIAL WEAPONS
- COAL MINING OPERATIONS, OIL & GAS PRODUCTION

03

ESG FRAMEWORK

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

ENVIRONMENTAL

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

SOCIAL

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

GOVERNANCE

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

04

THE INCORPORATION OF ESG

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

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

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 COLE

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. Rachel is an Associate of the Institute of Actuaries of Australia and is a CFA Charterholder.

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

RICHARD PREEDY

Chief Financial and Operating Officer

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 13 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.

CORPORATE GOVERNANCE

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

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

CONTENTS

The Directors present their report together with the financial report of NAOS Small Cap Opportunities Company Limited (the "Company") for the financial year ended 30 June 2019.

COMPANY INFORMATION

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Securities Exchange ("ASX"). Since 20 October 2017, the Company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services Licence No. 273529) (the "Investment Manager").

PRINCIPAL ACTIVITIES

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

DIRECTORS AND OFFICERS

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

Directors

Name	Appointment Date	Period of Office
Mr Trevor Carroll (Independent Chairman)	27 March 2017	27 March 2017 – present
Mr David Rickards	28 February 2018	28 February 2018 – present
Mr Warwick Evans	20 October 2017	20 October 2017 – present
Mr Sebastian Evans	20 October 2017	20 October 2017 – present

The qualifications and experience of each person who has been a Director or Company Secretary of the Company at any time since 1 July 2018 are provided below.

DIRECTORS' INFORMATION

Trevor Carroll, Independent Chairman

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

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

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

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

David Rickards, Independent Director

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

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

David has over 28 years of equity market experience, most recently as an executive director at Macquarie Group where David was head of equities research globally as well as equity strategy, since 1989 until he retired in mid-2013. David was also a consultant for the financial analysis firm Barra International.

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

Warwick Evans, Non-Independent Director

Warwick has been a Director of the Company since 20 October 2017. Warwick is also a Director of NAOS Ex-50 Opportunities Company Limited (ASX: NAC), NAOS Emerging Opportunities Company Limited (ASX: NCC), and Chairman of NAOS Asset Management Limited, the Investment Manager.

Warwick has over 35 years of equity market 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 Chairman of the Australian Stockbrokers Association. Prior to these positions he was an Executive Director at County NatWest.

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

Sebastian Evans, Non-Independent Director

Sebastian has been a Director of the Company since 20 October 2017, and also joint Company Secretary since 10 July 2019.

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

Sebastian holds a Masters of Applied Finance majoring in Investment Management, 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.

COMPANY SECRETARY

The following persons held office as Company Secretary during or since the end of the year.

Name	Appointment Date	Period of Office
Mr Rajiv Sharma	20 October 2017	20 October 2017 – 10 July 2019
Ms Laura Newell	10 July 2019	10 July 2019 – present
Mr Sebastian Evans	10 July 2019	10 July 2019 – present

COMPANY SECRETARY INFORMATION

Laura Newell, Company Secretary (appointed 10 July 2019)

Laura is an experienced Chartered Company Secretary who has worked for a broad range of organisations, both in-house and for corporate secretarial service providers.

Laura has over eight years of experience in company secretarial and governance management of ASX and NSX listed entities, unlisted public entities and FTSE 100 entities. She has worked with Boards and executive management of listed and unlisted companies across a range of industry sectors.

Laura is a Company Secretary of a number of ASX listed and unlisted public companies. She holds a degree with Honours in Law and Criminology and a Masters degree in Law and Corporate Governance. She is an Associate of the Governance Institute of Australia (GIA).

Rajiv Sharma, Company Secretary (resigned 10 July 2019)

Rajiv is Senior Legal Counsel at NAOS Asset Management Limited. Previously, he was Senior Legal Counsel at Magellan Financial Group and has also worked at law firms Johnson Winter & Slattery and Clayton Utz. He holds a Bachelor of Laws (First Class Honours), a Bachelor of Business (Accounting major) and a Graduate Diploma in Legal Practice from the University of Technology, Sydney.

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

MEETINGS OF DIRECTORS

	Year ended 30 June 2019	
	Eligible to attend	Attended
Mr Trevor Carroll	11	11
Mr David Rickards	11	11
Mr Warwick Evans	11	11
Mr Sebastian Evans	11	11

REVIEW OF OPERATIONS

Results

Please refer to the Investment Manager's review on page 4 for further information 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 included in these financial statements. The results and dividends for the year ended 30 June 2019 and 30 June 2018 were as follows:

	Year ended 30 June 2019 $'000	Year Ended 30 June 2018 $'000
(Loss)/profit before income tax expense	(26,544)	2,689
Income tax benefit	8,842	2,055
(Loss)/profit for the year attributable to shareholders	(17,702)	4,744

Dividends Paid or Payable

Year ended 30 June 2019	Dividend rate (cents per share)	Total amount '000	% Franked	Date of payment
2018 Final Dividend (declared on 23 August 2018)	3.00	5,070	100%	19 September 2018
2019 First Quarterly Interim Dividend (declared on 16 October 2018)	1.35	2,282	100%	19 November 2018
2019 Second Quarterly Interim Dividend (declared on 15 February 2019)	1.15	1,943	100%	11 March 2019
2019 Third Quarterly Interim Dividend (declared on 17 May 2019)	1.00	1,677	100%	18 June 2019
		10,972		

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount '000	% Franked	Date of payment
2017 Final Dividend (declared on 29 August 2017)	3.90	6,545	50%	13 October 2017
2018 Interim Dividend (declared on 13 March 2018)	2.50	4,224	100%	29 March 2018
		10,769		

Since 30 June 2019, the Board has declared a final dividend of 0.50 cents per share, fully franked, to be paid on 16 September 2019.

FINANCIAL POSITION

The net tangible assets of the Company as at 30 June 2019 were $125,455,488 (2018: $155,341,583). Further information on the financial position of the Company is included in the Chairman's letter.

As a capital management initiative to maximise value for shareholders, on 27 March 2019 the Board announced an on-market buyback of up to 10% of the Company's fully paid ordinary shares, with up to a maximum of 16,899,580 shares to be bought back over a 12-month period commencing 15 April 2019. As at 30 June 2019, 2,059,777 shares have been bought back.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

On 22 August 2019, the Company has declared a fully franked dividend of 0.50 cents per share, payable on 16 September 2019.

Other than the above, there has been no other 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.

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year, the Company paid premiums in respect of contracts insuring the Directors against a liability incurred as a Director or executive officer to the extent permitted by the Corporations Act 2001. The contracts of insurance prohibit disclosure of the nature of the liability and the amount of the premiums. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability as such an officer or auditor.

ROUNDING

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

No non-audit services were provided during the year. Refer to Note 14 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 22.

REMUNERATION REPORT (AUDITED)

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

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

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

Payments to Directors reflect the demands and responsibilities of their roles and are reviewed annually by the Board. The Company determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors. The maximum amount is currently $750,000 (including superannuation contributions) as approved by shareholders at the 2013 AGM.

Directors' remuneration received for the year ended 30 June 2019 and 30 June 2018 is disclosed below.

30 June 2019	Short-term employee benefits Directors' Fees ($)	Post-employment benefit Super-annuation ($)	Total ($)
Mr Trevor Carroll	31,964	3,036	35,000
Mr Warwick Evans	22,831	2,169	25,000
Mr David Rickards	22,831	2,169	25,000
Mr Sebastian Evans	–	–	–
Total	77,626	7,374	85,000

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

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

INTERESTS IN SHARES AND CONVERTIBLE NOTES OF THE COMPANY

Directors' relevant interests in ordinary shares and convertible notes of NAOS Small Cap Opportunities Company Limited are detailed below as at 30 June 2019 and 30 June 2018. There have been no changes since this date to the date of this report.

Ordinary shares Year ended 30 June 2019	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll	157,755	14,196	–	171,951
Mr Sebastian Evans	859,500	299,000	–	1,158,500
Mr Warwick Evans	302,789	27,247	–	330,036
Mr David Rickards	274,836	24,731	–	299,567

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

Convertible notes Year ended 30 June 2019	Opening balance No of notes	Acquired No of notes	Sold No of notes	Closing balance No of notes
Mr Trevor Carroll	–	–	–	–
Mr Sebastian Evans	–	–	–	–
Mr Warwick Evans	–	–	–	–
Mr David Rickards	–	–	–	–

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

* Holdings as at 13 October 2017, being the date of cessation as a Director.
** Holdings as at 20 October 2017, being the date of cessation as a Director.
*** Holdings as at 31 January 2018, being the date of cessation as a Director.
**** Holdings as at 28 February 2018, being the date of cessation as a Director.

CONSEQUENCES OF THE COMPANY'S PERFORMANCE ON SHAREHOLDER WEALTH

The following table summarises Company performance and Directors' remuneration over five years:

	2019	2018	2017	2016	2015
Operating (loss)/profit after tax ($'000)	(17,702)	4,744	(13,894)	17,250	(735)
Dividends (cents per share)	4.00	5.50	6.60	6.30	7.70
NTA after tax ($ per share)	0.75	0.92	0.96	1.10	1.05
Total Directors' remuneration ($)	85,000	111,572	309,800	1,572,883	1,254,300
Shareholders' equity ($'000)	125,457	155,342	160,755	178,464	169,462

Director fees are not directly linked to the Company's performance.

End of Remuneration Report (Audited).

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
22 August 2019

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Level 2, Brindabella Business Park
8 Brindabella Circuit
Canberra ACT 2609 Australia

Tel: +61 (0) 2 6263 7000
Fax: +61 (0) 2 6263 7001
www.deloitte.com.au

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

22 August 2019

Dear Directors,

NAOS Small Cap 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 Small Cap Opportunities Company Limited.

As lead audit partner for the audit of the financial statements of NAOS Small Cap Opportunities Company Limited for the financial year ended 30 June 2019, 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

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Level 2, Brindabella Business Park
8 Brindabella Circuit
Canberra ACT 2609 Australia

Tel: +61 (0) 2 6263 7000
Fax: +61 (0) 2 6263 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of NAOS Small Cap Opportunities Company Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of NAOS Small Cap Opportunities Company Limited (the "Company"), which comprises the statement of financial position as at 30 June 2019, 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 Small Cap 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 2019 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
Valuation and existence of financial assets held at fair value through profit or loss As at 30 June 2019, the Company's listed equity securities held at fair value through profit or loss totalled $141.6 million as disclosed in Notes 6 and 16. Whilst there is not significant judgement in determining the valuation of Company's financial assets held at fair value through profit or loss, these represent the most significant driver of the Company's revenue and its performance. The fluctuations in financial assets valuation also impacts the realised and unrealised gains/(losses) recognised in the statement of profit or loss and other comprehensive income, which in turn also affects the current and deferred tax provisions.	Our procedures included, but were not limited to: • 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; • agreeing on a sample basis, the valuation of listed equity securities to an independent pricing source; • agreeing on a sample basis, the investment holdings to the external custodian's holdings statement; and • reperforming a reconciliation of the financial assets balance for the year, including the 1 July 2018 investment balance, purchases, sales, other relevant transactions and the 30 June 2019 investment balance. We also assessed the appropriateness of the disclosures in Notes 6 and 16 to the financial statements.

Other Information

Deloitte.

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, 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.

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 22 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of NAOS Small Cap Opportunities Company Limited, for the year ended 30 June 2019, 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, 22 August 2019

	Note	Year ended 30 June 2019 $'000	Year Ended 30 June 2018 $'000
Income	3	(21,719)	9,551
Expenses			
Management fees		(1,923)	(2,274)
Transaction costs		(498)	(1,815)
Interest expense		(1,458)	(1,458)
Listing, custody and registry fees		(243)	(434)
Legal and professional fees		(68)	(133)
Amortisation costs		(118)	(118)
Directors' remuneration expense		(85)	(112)
Other expenses		(432)	(518)
(Loss)/Profit before income tax expense		(26,544)	2,689
Income tax benefit	4	8,842	2,055
(Loss)/Profit for the year attributable to shareholders of the Company		(17,702)	4,744
Other comprehensive income for the year		–	–
Total comprehensive (loss)/income for the year attributable to shareholders of the Company		(17,702)	4,744
Basic and diluted earnings per share (cents per share)	17	(10.5)	2.8

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

	Note	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	15	2,732	15,455
Other financial assets		–	4
Prepayments		55	57
Receivables	7	688	1,024
Financial assets at fair value through profit or loss	6	141,635	172,343
Total current assets		145,110	188,883
Non-current assets			
Other financial assets		–	47
Deferred tax assets	4	7,877	340
Total non-current assets		7,877	387
Total assets		152,987	189,270
Liabilities			
Current liabilities			
Provision for income tax	4	–	3,880
Borrowings	9	26,410	–
Payables	8	1,120	1,874
Total current liabilities		27,530	5,754
Non-current liabilities			
Payables	8	–	574
Borrowings	9	–	26,292
Deferred tax liabilities	4	–	1,308
Total non-current liabilities		–	28,174
Total liabilities		27,530	33,928
Net assets		125,457	155,342
Equity			
Issued capital	10	200,293	201,504
Accumulated losses	11	(82,456)	(64,754)
Profits reserve	11	7,620	18,592
Total equity		125,457	155,342

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

	Note	Issued Capital $'000	Profits Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2017		200,892	20,058	(60,195)	160,755
Profit for the year		–	–	4,744	4,744
Transfer to profits reserve		–	9,303	(9,303)	–
Dividends paid		–	(10,769)	–	(10,769)
Shares issued under Dividend Reinvestment Plan		1,056	–	–	1,056
DRP shares allotted		731	–	–	731
Purchase of shares on-market for DRP		(731)	–	–	(731)
Shares bought back from shareholders		(444)	–	–	(444)
Balance at 30 June 2018	10	201,504	18,592	(64,754)	155,342
Balance at 1 July 2018		201,504	18,592	(64,754)	155,342
Loss for the year		–	–	(17,702)	(17,702)
Dividends paid		–	(10,972)	–	(10,972)
DRP shares allotted		1,546	–	–	1,546
Purchase of shares on-market for DRP		(1,546)	–	–	(1,546)
Shares bought back from shareholders		(1,211)	–	–	(1,211)
Balance at 30 June 2019	10	200,293	7,620	(82,456)	125,457

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

	Note	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
Cash flows from operating activities			
Payments for purchase of investments		(64,150)	(260,747)
Proceeds from sale of investments		67,606	259,871
Dividends received		5,070	9,208
Interest received		108	424
Interest paid to note holders		(1,458)	(1,458)
Income tax paid		(4,117)	(2,360)
Other payments		(3,599)	(5,973)
Net cash used in operating activities	15(b)	(540)	(1,035)
Cash flows from financing activities			
Payments for buyback of shares		(1,211)	(444)
Purchase of shares on-market for DRP		(1,546)	(731)
Dividend paid net of amounts reinvested		(9,426)	(8,982)
Net cash used in financing activities		(12,183)	(10,157)
Net decrease in cash and cash equivalents		(12,723)	(11,192)
Cash and cash equivalents at the beginning of the year		15,455	26,647
Cash and cash equivalents at the end of the year	15(a)	2,732	15,455
Non-cash activities – Dividend reinvestment		–	1,056

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

GENERAL INFORMATION

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

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

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 22 August 2019.

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 year end financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and interpretations of the Australian Accounting Standards Board ("AASB"), and the Corporations Act 2001 in Australia. For the purposes of preparing these 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.

The accounting policies and methods of computation adopted in the preparation of the year end financial report are consistent with those adopted and disclosed in the Company's 2018 consolidated financial report, except for the impact of the Standards and Interpretations described in Note 2. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The financial statements are not presented on a consolidated basis as no controlled entities or subsidiaries are considered material to the users of these financial statements. If the financial statements were to be presented on a consolidated basis, it would have no impact on the amounts and disclosures recognised and disclosed herein.

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 historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

b) Statement of Compliance

The financial report of the Company, comprising the financial statements and notes thereby, 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").

c) Reporting Currency

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

d) Going Concern Basis

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

e) 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.

f) Revenue and Income Recognition

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

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

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

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

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

g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and 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.

h) Investments in Financial Instruments

Investments in financial instruments, as defined by AASB 132 "Financial Instruments: Presentation", are categorised in accordance with AASB 9 "Financial Instruments: Recognition and Measurement". This classification is determined by the investment strategy of the Company. The classification of each financial instrument is re-evaluated at each financial year end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Investments in Financial Instruments (continued)

(i) Initial Recognition, measurement and derecognition

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

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

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

(ii) Classification and subsequent measurement

Financial Assets and Liabilities held at Fair Value Through Profit or Loss

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

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

Financial Liabtilities

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

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

Compound Financial Instruments

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

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

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

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ("ECL") on financial assets excluding investments that are measured at fair value through profit and loss. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions; and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since the initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The amount of impairment loss will be recognised in the Statement of Profit or Loss and Other Comprehensive 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). 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) Income Tax

The income tax expense/(benefit) comprises current tax and movements in 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Income Tax (continued)

Current and deferred tax expense/(income) 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 substantially 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.

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, and 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) 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.

o) Profits Reserve

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

p) Goods and Services Tax (GST)

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

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

q) Earnings Per Share

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

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

r) Rounding of amounts

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

s) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Income Tax
The Company has recognised deferred tax assets relating to current year tax losses, unrealised losses on investments, other accruals and share issue costs of $7,877,713 as at 30 June 2019. The utilisation of tax losses depends on the ability of the Company to generate future taxable profits. The Company considers that it is probable that future taxable profits will be available to utilise those deferred tax assets. This assessment is supported by the Investment Manager's long-term performance and profitability. New information may become available that may cause the Company to change its judgement regarding calculation of tax balances, and such changes will impact the profit or loss in the period that such determination is made. Utilisation of the current year tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. The Company may fail to satisfy the continuity of ownership test and therefore would have to rely on the same business test. If the Company fails to satisfy the test, the deferred tax asset in respect of current year tax losses of $1,937,931 that is currently recognised would be written off.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New or amended Accounting Standards and Interpretations adopted in the current period

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period:

AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018)

In accordance with initial application requirements, the Company adopted AASB 9 from 1 July 2018. All of the Company's investments in financial assets continued to be accounted for at fair value through profit or loss under AASB 9. Accordingly, first time application of AASB 9 had no impact on the Company's accounting for its investments in financial assets. On initial application of AASB 9, the Company also adopted the expected credit loss impairment model. As per management's assessment, the adoption had no material impact on the carrying amounts of the Company's receivables.

AASB 15: Revenue from Contracts with Customers (AASB 15) (effective 1 July 2018)

AASB 15 supersedes AASB 118 Revenue and AASB 111 Construction Contracts. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates as revenue is recognised when control of a good or service transfers to a customer, or on satisfaction of performance obligations under contracts, which replaces the existing notion of risks and rewards.

As per management's assessment, there were no impacts on the Company's financial statements upon adoption of AASB 15 on 1 July 2018 as the Company's revenue recognition of interest income, dividend income, and net gains/(losses) on financial instruments were unaffected as these items are excluded from the scope of AASB 15.

New standards and interpretations not yet adopted

There are no new standards or interpretations applicable that would have a material impact on the Company.

3. INCOME

	Year ended 30 June 2019 $'000	Year Ended 30 June 2018 $'000
Losses on financial assets held at fair value through profit or loss	(26,712)	(378)
Interest income	91	443
Dividend income	4,902	9,400
Other income	–	86
Total income	(21,719)	9,551

4. INCOME TAX

a) Income tax expense/(benefit)

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

	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
Prima facie income tax expense/(benefit) calculated at 30%	(7,963)	807
Less the tax effect of:		
Imputation credit gross up	382	1,024
Franking credit offset	(1,274)	(3,412)
Under/(over) provision of prior year tax	–	39
Tax losses not previously brought to account	–	(475)
Non-deductible expenditure	13	(38)
	(8,842)	(2,055)

	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
Total Income tax expense/(benefit) results in a:		
Current tax liability	–	4,423
Under/(over) provision of prior year tax	3	39
Change in deferred tax liability	(1,308)	(6,619)
Change in deferred tax asset	(7,537)	102
	(8,842)	(2,055)

b) Current tax liabilities

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Balance at the beginning of the year	(3,880)	(1,778)
Under/(over) provision of prior year tax	(3)	(39)
Tax paid	3,883	2,360
Current year income tax on operating profit	–	(4,423)
At reporting date	–	(3,880)

c) Deferred tax assets

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Temporary differences in relation to:		
Tax losses	1,938	–
Accruals	54	340
Unrealised losses on investments	5,885	–
	7,877	340

4. INCOME TAX (CONTINUED)

c) Deferred tax assets (continued)

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Movement in deferred tax assets		
Balance at the beginning of the year	340	442
Credited/(charged) to the statement of profit or loss and comprehensive income	7,537	(102)
At reporting date	7,877	340

d) Deferred tax liabilities

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Temporary differences in relation to:		
Unrealised gains on investments	–	(1,150)
Income assessable in the future	–	(158)
	–	(1,308)

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Movement in deferred tax liabilities		
Balance at the beginning of the year	(1,308)	(7,927)
Credited/(charged) to the statement of profit or loss and comprehensive income	1,308	6,619
At reporting date	–	(1,308)

5. DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2019	Dividend rate (cents per share)	Total amount '000	% Franked	Date of payment
2018 Final Dividend (declared on 23 August 2018)	3.00	5,070	100%	19 September 2018
2019 First Quarterly Interim Dividend (declared on 16 October 2018)	1.35	2,282	100%	19 November 2018
2019 Second Quarterly Interim Dividend (declared on 15 February 2019)	1.15	1,943	100%	11 March 2019
2019 Third Quarterly Interim Dividend (declared on 17 May 2019)	1.00	1,677	100%	18 June 2019
		10,972		

Year ended 30 June 2018	Dividend rate (cents per share)	Total amount '000	% Franked	Date of payment
2017 Final Dividend (declared on 29 August 2017)	3.90	6,545	50%	13 October 2017
2018 Interim Dividend (declared on 12 February 2018)	2.50	4,224	100%	29 March 2018
		10,769		

Since 30 June 2019, the Board has declared a final dividend of 0.50 cents per share, fully franked, to be paid on 16 September 2019.

5. DIVIDENDS PAID OR PAYABLE (CONTINUED)

Dividend Franking Information

	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
Franking credits available for shareholders from previous financial years	2,907	348
Impact on the franking account of dividends paid during the year	(4,702)	(3,213)
Impact on the franking account of dividends received during the year	1,274	3,412
Impact on the franking account of income tax paid	4,117	2,360
Franking account balance at reporting date	3,596	2,907

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. INVESTMENTS

Financial Assets at Fair Value through Profit or Loss

	30 June 2019 $'000	30 June 2018 $'000
Investment in listed equities	128,271	156,148
Investment in listed unit trusts	13,364	16,195
Total financial assets at fair value through profit or loss	141,635	172,343

Disclosed Fair Values
For all financial instruments their carrying value approximates fair value.

7. RECEIVABLES

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Other receivables	635	607
Unsettled trades receivable	53	417
Total	688	1,024

8. PAYABLES

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Current		
Unsettled trades payable	473	880
Other payables	647	994
	1,120	1,874
Non-current		
Other payables	–	574
Total current and non-current payables	1,120	2,448

9. BORROWINGS

There were 265,000 convertible notes outstanding at 30 June 2019 each with a face value of $100 which were issued on 24 December 2014. These notes carry an interest entitlement of 5.5% per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of $1.30 per share until 31 March 2020. Notes not converted will be redeemed at their face value on 31 March 2020. At 30 June 2019, the face value of the convertible notes on issue was $26.5 million (2018: $26.5 million). Terms of the notes are regulated under a trust deed between the Company and Equity Trustees Limited.

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Face value of convertible notes	26,500	26,500
Less raising costs	(625)	(625)
Previous amortised costs	417	299
Add amortisation of costs for period	118	118
Unsecured convertible notes at amortised cost	26,410	26,292

10. ISSUED CAPITAL

	30 June 2019		30 June 2018	
	No of shares	$'000	No of shares	$'000
Issued and paid up capital – Ordinary shares	166,936,029	200,293	168,995,806	201,504

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

Each share will confer on its holder:

(a) the right to receive notice of and to attend general meetings of the Company and to receive all financial statements, notices and documents required to be sent to them under the Constitution and the Corporations Act 2001;

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

(c) the right to receive dividends;

(d) the right to receive, in kind, the whole or any part of the Company's property in a winding up, subject to the rights of a liquidator of the Company (with consent of members by special resolution); and

(e) subject to the Corporations Act 2001 and the ASX Listing Rules, shares are fully transferable.

Movements in ordinary share capital

Date	Details	No. of shares	$'000
01 July 2017	Opening balance	168,289,506	200,892
	Shares allotted under Dividend Reinvestment Plan	1,988,999	1,787
	Purchase of shares on-market for Dividend Reinvestment Plan	(815,699)	(731)
	Shares bought back	(467,000)	(444)
30 June 2018	Closing balance	168,995,806	201,504
01 July 2018	Opening balance	168,995,806	201,504
	Shares allotted under Dividend Reinvestment Plan	(2,065,587)	1,546
	Purchase of shares on-market for Dividend Reinvestment Plan	2,065,587	(1,546)
	Shares bought back	(2,059,777)	(1,211)
30 June 2019	Closing balance	166,936,029	200,293

11. PROFITS RESERVE AND ACCUMULATED LOSSES

a) Profits Reserve

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Balance at the beginning of the year	18,592	20,058
Transfer from retained earnings	–	9,303
Dividends paid	(10,972)	(10,769)
Balance at Reporting Date	7,620	18,592

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

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Balance at the beginning of the year	(64,754)	(60,195)
Transfer to profits reserve	–	(9,303)
(Loss)/profit for the year attributable to the members of the Company	(17,702)	4,744
Balance at Reporting Date	(82,456)	(64,754)

12. INTERESTS IN SUBSIDIARIES

		Ownership interest held by the Group	
Subsidiaries of the Company	Country of Incorporation	30 June 2019	30 June 2018
Contango Capital Partners Pty Ltd	Australia	–	100%

Contango Capital Partners Pty Ltd was de-registered in August 2018.

13. 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 as Investment Manager of the Company, the Investment Manager is entitled to be paid a monthly management fee equal to 0.0958% (excluding GST) of the gross value of the portfolio calculated on the last business day of each month representing an annualised management fee of 1.15% (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 2019:

- Management fees of $1,922,772 (2018: $1,597,654) (excluding RITC*) were incurred during the year.
- Management fees payable at 30 June 2019 were $151,883 (2018: $198,024) (including RITC*).

Performance Fees

In the event that the investment portfolio outperforms the Benchmark Index (being the S&P/ASX Small Ordinaries Accumulation Index), the Investment Manager is entitled to an annual performance fee equal to 20% (excluding GST) of the amount the portfolio outperforms the Benchmark Index. No performance fee is payable if the portfolio underperforms the Benchmark Index. Any underperformance to the Benchmark Index is carried forward to future performance calculation periods and must be recouped before the Investment Manager is entitled to a performance fee.

No performance fees were paid or payable to the Investment Manager for the year ended 30 June 2019 (2018: $nil).

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

14. AUDITOR'S REMUNERATION

	Year ended 30 June 2019 $	Year ended 30 June 2018 $
Audit and other assurance services		
Audit and review of financial reports	55,000	62,300
Total remuneration for audit and other assurance services	55,000	62,300
Other non-audit services		
Taxation services	31,955	19,000
Total remuneration for non-audit services	31,955	19,000
Total remuneration	86,955	81,300

Taxation services were provided by Pitcher Partners. The auditor of the Company was changed from Pitcher Partners to Deloitte Touche Tohmatsu in the current year.

15. CASH AND CASH EQUIVALENTS

a) Components of cash and cash equivalents

	As at 30 June 2019 $'000	As at 30 June 2018 $'000
Cash at bank	2,732	15,455

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

	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
(Loss)/profit for the year attributable to shareholders after tax	(17,702)	4,744
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	30,708	(1,352)
Depreciation and amortisation	118	118
Income tax benefit recognised in the Statement of Profit or Loss and Other Comprehensive Income	(8,842)	(2,055)
Income tax paid	(4,117)	(2,360)
Change in assets and liabilities:		
Decrease in trade and other receivables	623	424
Decrease in trade and other payables	(1,328)	(554)
Net cash used in operating activities	(540)	(1,035)

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

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

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

a) Credit Risk

Credit risk represents the risk that the Company will incur financial loss as a result of a failure by a counterparty to discharge a contractual obligation to a financial instrument. The Investment Manager monitors the creditworthiness 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 that counterparties are of sufficient quality 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 counterparties (National Australia Bank) have a rating of A or higher.

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

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, equity prices and other price risks and liquidity. Market risk is managed and monitored on an ongoing basis by the Investment Manager.

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

(i) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Convertible notes that were issued on 19 December 2014 pay a fixed rate of 5.5% per annum payable half-yearly on 30 September and 31 March each year until 31 March 2020.

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

30 June 2019	Floating interest rate $'000	Non-interest bearing $'000	Total $'000
Assets			
Cash and cash equivalents	2,732	–	2,732
Receivables	–	688	688
Financial assets at fair value through profit or loss	–	141,635	141,635
Total assets	2,732	142,323	145,055
Liabilities			
Payables	–	1,120	1,120
Total liabilities	–	1,120	1,120
Net exposure	2,732	141,203	143,935

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Market Risk (continued)

(i) Interest Rate Risk (continued)

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

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 reasonably possible changes in interest rates.

	Change in basis points increase/(decrease)	Impact on operating profit/ Net assets attributable to shareholders ($'000)
30 June 2019		
AUD interest rate	25bps/(25bps)	7/(7)
30 June 2018		
AUD interest rate	25bps/(25bps)	39/(39)

(ii) Price Risk

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

As at 30 June 2019, a 10% sensitivity would have had an impact on the Company's Statement of Profit or Loss and Other Comprehensive Income and net assets attributable to shareholders as shown in the table below:

	Impact on operating profit/ Net assets attributable to shareholders ($)	
	–10% $'000	10% $'000
30 June 2019	(14,164)	14,164
30 June 2018	(17,234)	17,234

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Market Risk (continued)

(ii) Price Risk (continued)
The Company's industry sector weighting of the investment portfolio as at the reporting date is as below:

	% of Portfolio	
Industry	30 June 2019	30 June 2018
Information Technology	40.10%	33.70%
Financials	18.35%	9.17%
Commercial and Professional Services	12.91%	12.51%
Real Estate	9.44%	15.89%
Media	9.18%	5.99%
Construction Materials	5.23%	4.73%
Consumer Discretionary	4.79%	6.76%
Health Care	–	10.60%
Industrials	–	0.65%
Total	100.00%	100.00%

c) Liquidity Risk

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

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

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from 30 June 2019 to the contractual maturity date.

	30 June 2019			
	< 1 month $'000	1-12 months $'000	> 12 months $'000	Total $'000
Borrowings	–	26,410	–	26,410
Trade and other payables	850	270	–	1,120
Total	850	26,680	–	27,530

	30 June 2018			
	< 1 month $'000	1-12 months $'000	> 12 months $'000	Total $'000
Borrowings	–	–	26,292	26,292
Trade and other payables	1,604	270	574	2,448
Provision for income tax	–	3,880	–	3,880
Total	1,604	4,150	26,866	32,620

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

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

Level 1:
Financial instruments are valued by reference to quoted prices in an active market(s) for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2:
Financial instruments are valued using inputs other than quoted prices covered in Level 1. These other inputs include quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The inputs included in this level encompass quoted prices in active markets for similar assets or liabilities and quoted prices in markets in which there are few transactions for identical or similar assets or liabilities. Financial instruments that are valued using other inputs that are not quoted prices but are observable for the assets or liabilities also fall into this categorisation.

Level 3:
Financial instruments that have been valued, in whole or in part, by using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable valuation inputs are determined based on the best information available, which might include the entity's own data, reflecting its assumptions as well as best practices carried out or undertaken by other market participants. These valuation techniques are used to the extent that observable inputs are not available.

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

Financial Assets at Fair Value through Profit or Loss

	30 June 2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment in listed equities	128,271	–	–	128,271
Investment in listed unit trusts	13,364	–	–	13,364
Total	141,635	–	–	141,635

	30 June 2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment in listed equities	156,148	–	–	156,148
Investment in listed unit trusts	16,195	–	–	16,195
Total	172,343	–	–	172,343

Financial Liabilities at Fair Value through Profit or Loss
There are no financial liabilities designated at fair value through profit or loss as at 30 June 2019 and 30 June 2018.

e) Capital Management

The Company's objectives for managing capital are:

- to achieve consistent returns including regular payment of dividends while safeguarding capital by investing in a concentrated portfolio, and closely monitoring the performance of the underlying investments;
- 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.

The Board manages the Company's capital through share and option issuance (including the Dividend Reinvestment Plan), share buybacks and the distribution of dividends to shareholders. These capital management initiatives will be used when deemed appropriate by the Board. The Company is not subject to externally imposed capital requirements.

17. EARNINGS PER SHARE

	Year ended 30 June 2019 cents	Year ended 30 June 2018 cents
Basic and diluted earnings per share	(10.5)	2.8
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	168,692,949	168,745,084
	$'000	$'000
Net (loss)/profit used in the calculation of basic and diluted earnings per share	(17,702)	4,744

18. COMMITMENTS AND CONTINGENCIES

There are no commitments and contingencies as at 30 June 2019 (30 June 2018: nil).

19. 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 2019 was $85,000 (2018: $111,572).

There were no shares granted during the reporting period as compensation to the Directors. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

b) Related Party Shareholdings

NAOS Asset Management Limited
The Company has outsourced its investment management function to NAOS Asset Management Limited. As at June 30 2019, NAOS Asset Management Limited holds 1,158,500 shares (2018: 859,500 shares) in the Company. Other than the disclosure at Note 13 and below there was no interest in the Company held by other entities also managed by the key management personnel.

Holdings of Shares by Key Management Personnel
During the period, the relevant interests of the Directors and their related parties in the shares of the Company were:

Ordinary shares Year ended 30 June 2019	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll	157,755	14,196	–	171,951
Mr Sebastian Evans	859,500	299,000	–	1,158,500
Mr Warwick Evans	302,789	27,247	–	330,036
Mr David Rickards	274,836	24,731	–	299,567

Ordinary shares Year ended 30 June 2018	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll	–	157,755	–	157,755
Mr Sebastian Evans	–	859,500	–	859,500
Mr Warwick Evans	–	302,789	–	302,789
Mr David Rickards	–	274,836	–	274,836

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 period and there were no material contracts involving key management personnel's interests existing at year end.

20. SEGMENT INFORMATION

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

21. SUBSEQUENT EVENTS

On 22 August 2019, the Company declared a fully franked dividend of 0.50 cents per share payable on 16 September 2019.

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

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

In the opinion of the Directors:

- the 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 2019;
- 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
Director
22 August 2019

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

INVESTMENT PORTFOLIO

As at 30 June 2019 the Company held the following investments:

Big River Industries Limited
BSA Limited
CML Group Limited
Consolidated Operations Group Limited
Countplus Limited
Enero Group Limited
Experience Co Limited
Motorcycle Holdings Limited
MNF Group Limited
Objective Corporation Limited
Over The Wire Holdings Limited
Village Roadshow Limited
360 Capital Total Return Fund

During the financial year ended 30 June 2019, the Company had 1,029 transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2019 were $498,303.

20 LARGEST SHAREHOLDERS

Details of the 20 largest ordinary shareholders along with their respective holdings as at 31 July 2019.

Ordinary Shareholders	Balance as at 31 July 2019	% of issued shares
HSBC Custody Nominees (Australia) Limited	16,798,761	10.11%
Bond Street Custodians Limited	6,974,384	4.20%
Mr Victor John Plummer	2,175,000	1.31%
Beck Havas Pty Ltd	1,251,991	0.75%
NAOS Asset Management Limited	1,158,500	0.70%
BNP Paribas Nominees Pty Ltd	1,060,777	0.64%
Mr James V C Guest and Mrs Sarah L Guest	871,599	0.52%
Somoke Pty Limited	845,978	0.51%
Angus Mac Pty Ltd	820,039	0.49%
Billyn Pty Ltd	817,331	0.49%
David Ian Stevens	810,803	0.49%
Mrs Ida Rubin	793,791	0.48%
Mr Donald Mackenzie and Mrs Gwenneth Mackenzie	730,000	0.44%
Gee-Elle Pty Ltd	640,000	0.39%
Tendword Pty Ltd	600,000	0.36%
G H Kluge & Sons Ltd	600,000	0.36%
Mr James V Guest and Mrs Sarah L Guest	555,711	0.33%
Netwealth Investments Limited	543,812	0.33%
Demeta Pty Ltd	530,000	0.32%
Horton Pty Limited	524,000	0.32%
Total	39,102,477	23.54%

SUBSTANTIAL SHAREHOLDERS

Ordinary Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	16,798,761	10.11%

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shares by size of shareholders as at 31 July 2019.

Holdings ranges	Ordinary Shareholders
1-1,000	402
1,001-5,000	845
5,001-10,000	768
10,001-100,000	2,442
100,001 and over	237
Total	4,694

20 LARGEST CONVERTIBLE NOTE HOLDERS

Details of the 20 largest convertible note holders along with their respective holdings as at 31 July 2019.

Convertible Note Holders	Balance as at 31 July 2019	% of issued notes
HSBC Custody Nominees (Australia) Limited	26,538	10.01%
J P Morgan Nominees Australia Pty Ltd	17,771	6.71%
CS Third Nominees Pty Limited	15,370	5.80%
Twenty Second Natro Pty Ltd	12,950	4.89%
Citicorp Nominees Pty Ltd	12,500	4.72%
The Police Association	10,000	3.77%
St Hedwig Village	8,051	3.04%
Manos Capital Pty Ltd	7,500	2.83%
Investment Management Co Pty Ltd	6,000	2.26%
Mr Christopher Pow and Mrs Antonietta Pow	3,000	1.13%
Dr Graeme Dorahy and Mrs Jean Dorahy	2,989	1.13%
TJMW Holdings Pty Ltd	2,950	1.11%
Dr Graeme Dorahy and Mrs Jean Dorahy	2,763	1.04%
Clendon House Investments Pty Ltd	2,518	0.95%
Mrs Anne Elizabeth Scott	2,500	0.94%
Homm Pty Ltd	2,264	0.85%
Mr Craig Andrew Robson and Mrs Lisa Harrison	2,134	0.81%
Mr Peter Polson and Mrs Rosemary Polson	2,000	0.75%
Gemline Pty Ltd	2,000	0.75%
Sofigo Investments Pty Ltd	2,000	0.75%
Total	143,798	54.24%

DISTRIBUTION OF CONVERTIBLE NOTES

Analysis of convertible notes by size of convertible note holders as at 31 July 2019.

Holdings ranges	Convertible Note Holders
1-1,000	239
1,001-5,000	31
5,001-10,000	4
10,001-100,000	5
100,001 and over	0
Total	279

VOTING RIGHTS

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

ASX LISTING

Quotation has been granted for all Ordinary Shares and Convertible Notes (ASX code NSC and NSCG respectively) of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

BUYBACK

The Company announced a 12-month on-market share buyback on 27 March 2019. Since its commencement on 15 April 2019 to 30 June 2019 the Company bought back a total of 2,059,777 shares for a consideration of $1,211,419. (2018: The Company bought back a total of 467,000 ordinary shares for consideration of $444,196).

UNMARKETABLE PARCELS

As at 31 July 2019 the number of shareholdings held in less than marketable parcels was 323.

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

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

COMPANY SECRETARY

Rajiv Sharma (resigned 10 July 2019
Laura Newell (appointed 10 July 2019)
Sebastian Evans (appointed 10 July 2019)

REGISTERED OFFICE

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

INVESTMENT MANAGER

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

CONTACT DETAILS

T: (02) 9002 1576
E: enquiries@naos.com.au
W: www.naos.com.au

SHARE REGISTRY

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

AUDITOR

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


WWW.NAOS.COM.AU