

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 2020

All comparisons are to the year ended 30 June 2019

| | \$'000 | up/down | % change |
|---|--------------------|--------------------------|-----------------------|
| Revenue from ordinary activities | 6,625 | up | 131% |
| Profit from ordinary activities before tax attributable to shareholders | 1,312 | up | 105% |
| Profit from ordinary activities after tax attributable to shareholders | 1,412 | up | 108% |
| Dividend Information | Cents per share | Franked amount per share | Tax rate for franking |
| 2020 Final quarterly dividend | 1.00 | 1.00 | 30% |
| 2020 First quarterly dividend | 1.00 | 1.00 | 30% |
| 2020 Second quarterly dividend | 1.00 | 1.00 | 30% |
| 2020 Third quarterly dividend | 1.00 | 1.00 | 30% |
| Final Dividend Dates | | | |
| Ex-dividend date | | | 31 August 2020 |
| Record date | | | 1 September 2020 |
| Last date for DRP election | | | 2 September 2020 |
| Payment date | | | 16 September 2020 |
| Dividend Reinvestment Plan | | | |
| The Dividend Reinvestment Plan is in operation and the recommended fully franked final quarterly dividend of 1.00 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules. | | | |
| | 30 June 2020 \$ | 30 June 2019 \$ | |
| (Post Tax) Net tangible asset backing per share | 0.73 | 0.75 | |
| This report is based on the annual report which has been subject to independent audit by the auditors, Deloitte Touche Tohmatsu Australia. The audit report is included with the Company's Annual Report, which accompanies this Appendix 4E. All the documents comprise the information required by the Listing Rule 4.3A. | | | |



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NAOS SMALL CAP OPPORTUNITIES
COMPANY LIMITED

Annual Report 2020

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KEY DATES

2020 ANNUAL GENERAL MEETING

NAOS Small Cap Opportunities Company Limited advises that its Annual General Meeting will be held at 12:00 noon on Thursday 12 November 2020 at Morgans, Level 21, Aurora Place, 88 Phillip Street, Sydney NSW 2000. Further details relating to the meeting will be advised in the Notice of Meeting to be sent to all shareholders and released to ASX immediately after despatch.

In accordance with the ASX Listing Rules, valid nominations for the position of Director are required to be lodged at the registered office of the Company by 5:00pm (AEST) on 22 September 2020.

Please join us for our bi-annual Investor Roadshow Webinar

This year we will be hosting the annual investor roadshow presentation online.

The event will be held on Thursday 24 September and there will be a recording available for those who can't make it.

Please look out for more information and your invitation to register coming soon.

We hope you will be able to join us.

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

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

4.0c

FULLY FRANKED FY20 DIVIDEND

8.88%

FULLY FRANKED DIVIDEND YIELD

\$1.41m

FY20 PROFIT

KEY METRICS AS AT 30 JUNE 2020

| | |
|--|-----------------|
| Pre-tax Net Tangible Assets per Share | \$0.68 |
| Post-tax Net Tangible Assets per Share | \$0.73 |
| Share Price | \$0.45 |
| Fully Franked FY20 Dividend | 4.0 cents |
| Fully Franked Dividend Yield | 8.88% |
| Shares on Issue | 158,809,641 |
| Directors' Shareholding | 2,213,910 |
| Pre-tax Net Tangible Assets | \$107.9 million |

INVESTMENT PORTFOLIO PERFORMANCE AS AT 30 JUNE 2020

| | 1 MONTH | 6 MONTHS | 1 YEAR | 2 YEARS (P.A.) | INCEPTION (P.A.) | INCEPTION (Total Return) |
|--|---------|----------|--------|-------------------|---------------------|-----------------------------|
| NSC INVESTMENT PORTFOLIO PERFORMANCE* | +7.77% | -13.90% | +2.59% | -5.68% | -5.72% | -14.10% |
| S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX | -1.95% | -9.21% | -5.67% | -1.95% | +1.48% | +3.86% |
| PERFORMANCE RELATIVE TO BENCHMARK | +9.72% | -4.69% | +8.26% | -3.73% | -7.20% | -17.96% |

* 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. Returns compounded for periods greater than 12 months.

**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 2020 Annual Report for the NAOS Small Cap Opportunities Company Limited. In a market greatly impacted by the COVID-19 global pandemic (COVID-19), the Company recorded an after-tax profit of \$1.4 million. The Board would like to thank all our shareholders, including more than 600 new shareholders who joined the Company during the financial year, for their continued support.

FY20 has been a year of two halves. The Company recorded a first half after-tax profit of \$18.1 million which was followed by COVID-19, which heavily impacted performance. Pleasingly a solid recovery was achieved in the final months of FY20. The Company declared 4.0 cents per share of fully franked dividends for the year, maintaining the previous year's dividend. The profit reserve balance at year end was \$23.5 million.

The investment portfolio produced a positive return of +2.59% for the financial year ended 30 June 2020, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which produced a negative return of -5.67%.

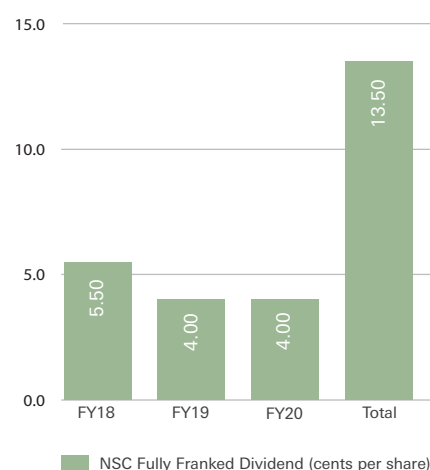
The pre-tax Net Tangible Asset backing (NTA) per share of the Company fell from 70 cents to 68 cents over the year, attributable primarily to the 3.5 cents of fully franked dividends paid to shareholders during the financial year. The positive performance of the investment portfolio added 3.1 cents per

share to the NTA, with management fees of 1.15% and interest expense decreasing NTA by 1.1 cents per share respectively. The remainder of the movement was NTA accretion due to the buyback of shares at a discount during the year.

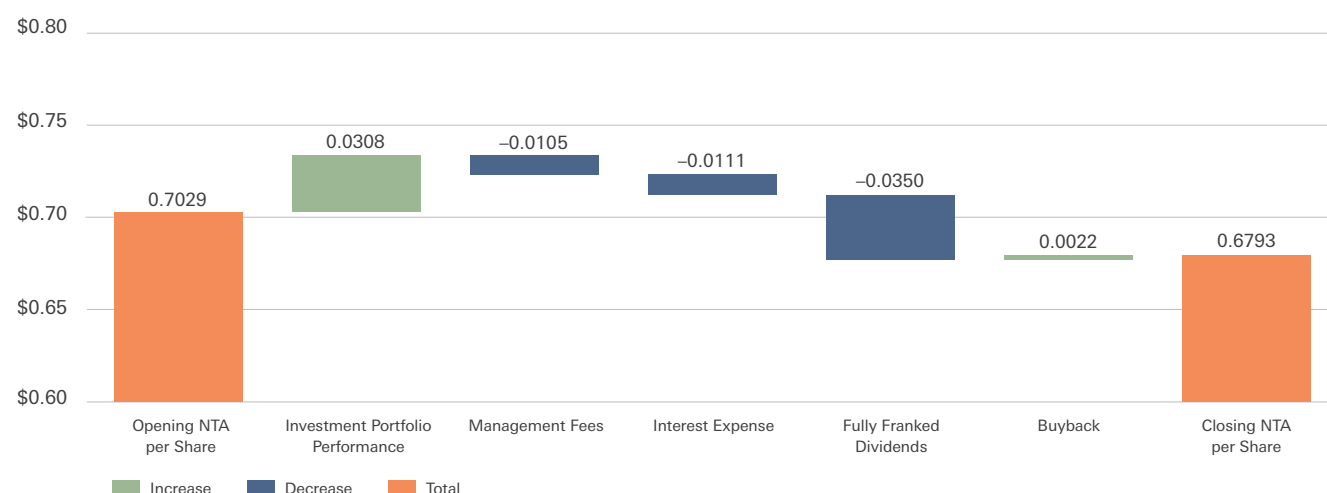
Total shareholder return (TSR), which measures the change in the share price and dividends paid over the financial year, was -15.69%. This measure does not include the benefit of franking credits received by shareholders. The share price closed the financial year at \$0.45 which represented a significant discount to pre-tax NTA of -33.82%.

Recognising the share price discount to NTA, the Board maintained an active buyback throughout the financial year with over 8.1 million shares bought back. The buyback of shares at a discount is accretive to NTA per share, and thus benefits all shareholders. The buyback capacity was refreshed in June 2020 and is expected to remain active through FY21 should the discount to NTA remain

NSC FULLY FRANKED DIVIDENDS



NSC PRE-TAX NTA PERFORMANCE



"Although the year was severely disrupted by the events of COVID-19, the Company believes growth opportunities through sector consolidation, as well as the potential productivity initiatives arising from changing work patterns, should provide benefits to the portfolio over the medium term."

significant. For those investors who partake in the Dividend Reinvestment Plan (DRP), it is important to note that the Company did not issue shares at a discount to NTA but acquired shares on-market to ensure this capital management activity was completed without any potential dilution for existing shareholders.

During December 2019 the Company completed a \$27 million five-year unsecured wholesale note issue to refinance \$26.5 million of Contango convertible notes. It is the view of the Board that the terms of the new wholesale notes better align to the long-term strategy of the Company as

well as reducing the Company's future interest expense without potentially dilutive conversion rights.

Although the year was severely disrupted by the events of COVID-19, the Company believes growth opportunities through sector consolidation, as well as the potential productivity initiatives arising from changing work patterns, should provide benefits to the portfolio over the medium term. The Company remains focused on capital preservation and long-term capital growth 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 pure, concentrated,

long-term exposure to small-cap industrial businesses. This concentrated, long-term approach is reflected by the 12 positions held as at 30 June 2020, six of which have been held since the inception of the investment portfolio in December 2017.

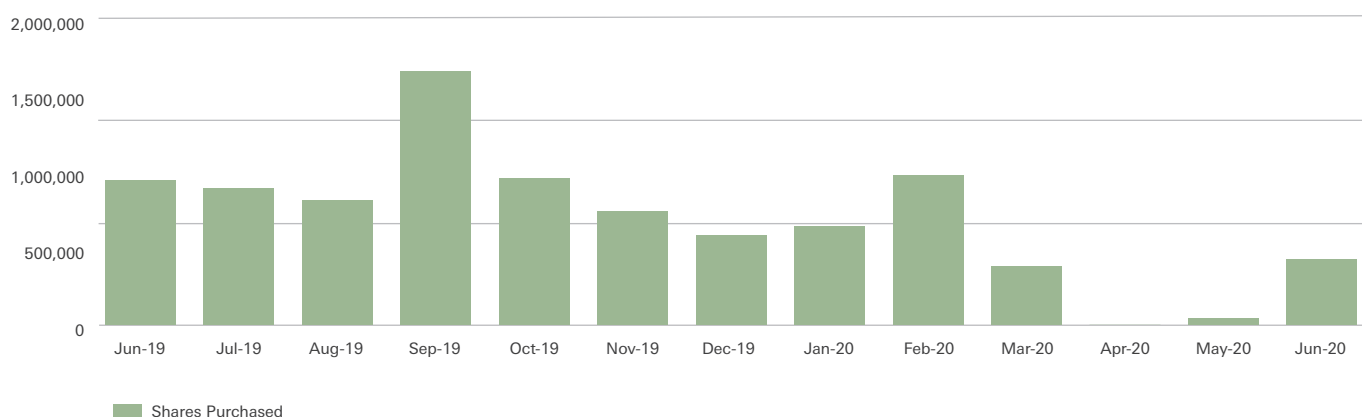
The Board continues to support the strategy of focusing on a concentrated long-term investment portfolio plus aligning the Investment Manager and Board with all shareholders. Reflecting this confidence, Directors' shareholdings increased during the year and now total 2.21 million shares.

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
20 August 2020

SHARES PURCHASED (BUYBACK PROGRAM)





Dear Fellow Shareholders,

For Financial Year 2020 the Investment Portfolio outperformed the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) by +8.26%, returning +2.59% compared to the Benchmark which returned -5.67%. We believe this is a robust result considering the smaller nature of many of the investments within the NSC portfolio. NSC was on track to deliver a significant return with the FY20 performance high being +19%, before returns were impacted by the extreme market volatility caused by COVID-19.

FY20 PORTFOLIO REVIEW

We believe many of the NSC investments made considerable progress from a business perspective in what can only be described as one of the most volatile years on record for both the NSC Investment Portfolio and the wider share market.

MNF Group Limited (ASX: MNF), BSA Limited (ASX: BSA) and Eureka Group Holdings (ASX: EGH) stood out this year with regard to progress from a business perspective, and we will discuss each investment in further detail below. At the other end of the spectrum it was pleasing to see only a small number of detractors to FY20 portfolio performance and we believe none of these will represent a permanent capital loss over the long term.

MNF provided FY20 guidance approximately 22 months ago following the acquisition of TIAB Group. Few ASX

listed companies have been able to give guidance so far out, yet alone hit that guidance figure two years later. Pleasingly MNF has been able to reaffirm this guidance very late in the financial year, even with the uncertainty caused by COVID-19.

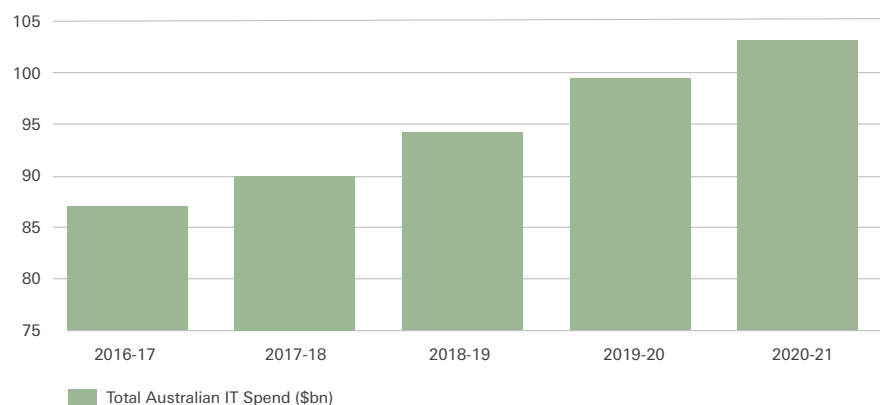
We firmly believe that the market is starting to understand the true drivers behind MNF's growth which has been accelerated by the ramifications of COVID-19.

As many businesses both domestically and globally have set up their teams to work from home, there has been an extraordinary increase in the need for services such as video calling, webcasts and other voice over internet applications. Australian IT spend is currently at an all-time high – see graph. As we have said for a number of years, MNF has built the infrastructure that allows these technology

+8.26%

1 YEAR OUTPERFORMANCE
TO BENCHMARK

AUSTRALIAN IT SPEND*



*Source: Gartner and Australian Bureau of Statistics.

providers (i.e. Google, Zoom and Skype) to launch and run their services in certain jurisdictions where the regulatory environment is different from their home country, but where they still require a highly capable network provider that meets their customers' needs.

Looking forward there are three key variables that will drive the earnings growth of MNF over the next one to three years: the structural demand for virtual phone numbers as more people work and study from home; geographical expansion as MNF expands from Australia into New Zealand, Singapore and other South East Asian countries; and finally the strong net cash balance sheet which may well be used by MNF for bolt-on acquisitions to build increased capability for geographical diversification.

BSA also made some significant progress throughout FY20. The problematic HVAC business was sold at the start of the year in what we viewed as an outstanding outcome, especially as BSA was able to keep the highly profitable Fire Build business. Post the sale of this business ~80% of BSA's revenue is now recurring in nature and therefore has limited contracting risk.

The contract with the National Broadband Network (nbn) for its Operate and Maintain Master Agreement (OMMA) was extended for a further 12 months and will bring the

tenure between the two business to over five years and we are hoping to see a longer-term contract extension in FY21.

Tim Harris was appointed as the new CEO, moving up from his previous roles as CFO and COO of the business. As former CFO of Leightons Contractors we believe he has an excellent understanding of how to drive long-term business productivity initiatives and deliver excellent client outcomes. Looking forward, we firmly believe that Tim and his team can build long term relationships with clients such as nbn, where there is a clear need for an innovative solution for a long-term thematic driven opportunity, and we may be starting to see this as new clients such as Aldi Supermarkets engage BSA for nationwide agreements.

EGH is a new core holding for the NSC investment portfolio, which has consistently been added to throughout the year. In our view, the future for EGH is very bright, with the number of people aged 65 and over expected to increase to 6 million by 2033 (from the current 4 million) meaning the demand for quality living options will be ever-increasing (see graph).

Unlike its comparable listed aged care businesses, EGH does not fall under the Aged Care Act as it does not provide aged care services. EGH is a simple rental model which makes it easy for a tenant to come and go as they please with no hidden

fees or strings attached. The affordable independent seniors living industry is very much a cottage industry, with many hundreds of operators estimated to be in service with one or two villages each. If EGH can continue to optimise its service offering and therefore improve both occupancy and rental yields, we believe it has the potential to be the market leader in this sector and many multiples larger than it is today without a significant increase to its fixed cost base.

COMPETING WITH THE WIND ON YOUR BACK

Over the past 13 years of investing I believe it has become more apparent than ever that to both minimise the risk of permanent capital loss and to maximise the potential for significant long-term outperformance you must ensure that whatever business you invest in has sound long-term structural tailwinds that ensure that the market in which it operates is growing. With the highly uncertain outlook for the global macro-economic environment, valuations, multiples and short-term earnings trajectories may gyrate significantly which can lead to highly volatile share prices.

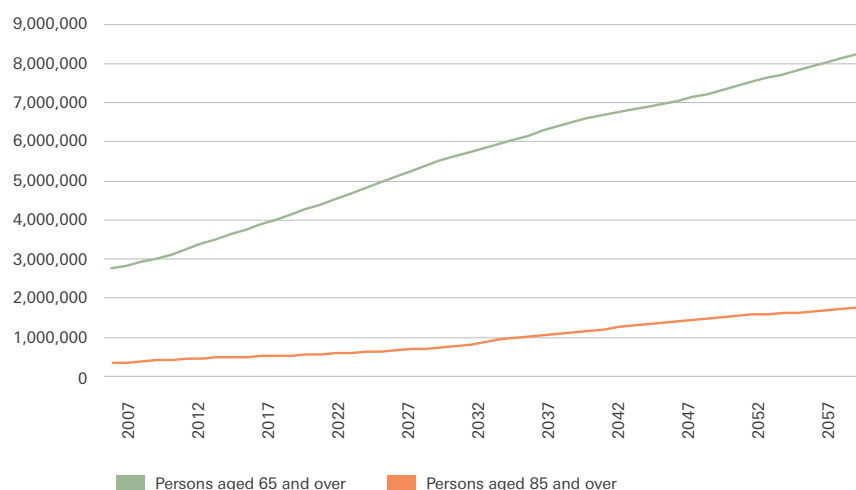
One might assume that most investments would operate in such industries, though often this is not the case. As an example, when we look at many of the largest companies in Australia, many of these operate in industries where there are few to no structural growth trends i.e. the Big-4 banks, Wesfarmers, IAG Group, Woolworths, AMP and Qantas.

Summarised below are some of the key business and industry specific trends we look for across all of our current and potential investments that we believe assist in both minimising any potential permanent capital loss and maximising the potential for outperformance over the long term.

INDUSTRY TAILWINDS SUPPORTING LONG-TERM REVENUE GROWTH

Without a doubt one of the most important factors when considering any new investment is understanding its ability to grow its revenue base over the long term. A growing revenue base provides companies with a number of competitive advantages such as the ability to scale their fixed cost base and increase margins, the opportunity to reinvest to improve their

AUSTRALIAN POPULATION PROJECTIONS*



* Source: Parliament of Australia.

product or service offering, or the chance to enter new markets and compete on a number of considerations other than just price (which is often the case in markets that offer little growth).

This may sound simple, but as we have seen with many large domestic-focused businesses, they have only been able to maintain or slightly grow profits through cost cutting. This is due to a stagnant revenue line, which in our view is only sustainable for so many years.

PRICING POWER

Many successful products and/or services around the globe can charge a price that is largely irrelevant to the consumer due to the simple fact that they provide such a sound consumer experience. This also allows the owners of these products or services to incrementally increase the price on a regular basis, and the end consumer is most likely not overly concerned. Examples include Microsoft Office, Xero accounting software and Cochlear ear implants.


The effect this has, not only on a business's bottom line but also in sustaining their competitive advantage is significant, and therefore the effect on the valuation multiple paid for such businesses can be two, three or even four times greater than a business that has little pricing power.

SCALABILITY

Numerous businesses strive to be much larger than they are today. However, it is often the case that when businesses grow, the effect on their operations and bottom line is not what was originally anticipated. Ideally, a business structure is built from the ground up and is structured in such a way that it has the systems and processes to handle significant scaling without an equivalent dollar being added to the cost base. Businesses that can demonstrate a trend of increasing profits over the long term have generally been able to increase margins as well. However, such businesses are few and far between.

CAPABILITY TO INTERNALLY FUND EXPANSION OPPORTUNITIES

Finally, in our view no business can grow without the ability to invest in organic business initiatives such as research and development, new product or service launches into adjacent markets, or small bolt-on acquisitions that bring with them



“Without a doubt one of the most important factors when considering any new investment is understanding its ability to grow its revenue base over the long term.”

a new capability. Successful products and services can mature over time for a variety of reasons, so any business should be looking to the future to understand and plan for what will be driving the business forward in three to five years' time. Very few businesses can do this, and many business leaders don't have the vision or discipline to successfully look this far ahead. In our view businesses who follow these principles, such as Reece (ASX: REH) and CSL (ASX: CSL), often see investors being happy to pay a premium to own shares in their companies.

LOOKING FORWARD

As mentioned previously, the potential for short term market volatility is significant due to the unprecedented and uncertain global macroeconomic backdrop that we are currently experiencing. In saying this, NAOS prides itself on having a long-term investment philosophy with a bottom-up stock selection process that we believe should deliver sound long-term performance.

Many of the core holdings within the NSC Investment Portfolio are entering FY21 with significant momentum across many aspects of their business. The investments which we believe may have the brightest 12 months ahead include EGH, Over the Wire Limited (ASX: OTW) and Tuas Limited (ASX: TUA). All these businesses have several factors in common which include growing revenue bases, the ability to scale with little further investment, low valuation multiples and little to no institutional investor ownership or research coverage.

As with all micro/small-cap businesses if a business can show earnings growth of circa 10-20% in a given year and

increase its valuation multiple from (say) 12 to 15 times, through greater demand for its shares, then the total return for an investor may well be ~45% prior to any dividend payments.

Clearly this does not occur every year; but for businesses with significant tailwinds and a lack of research coverage it may well last for a number of years, and we are of the firm belief that we have a number of candidates in the portfolio that could potentially produce similar results.

I would like to thank all our very loyal shareholders, and would also like to welcome the 648 new shareholders who joined as fellow investors with NSC during the year.

It was pleasing to see that after a long period of high shareholder turnover on the NSC share register the final few months of the year saw net additions to the NSC register for the first time in a number of years.

As always if you have any questions or queries please don't hesitate to contact myself or any member of the NAOS team.

All the best for FY21.



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

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

With a proven performance track record, NAOS seeks to protect investor capital whilst providing a sustainable growing stream of fully franked dividends and long-term capital growth above the relative benchmark index.

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 synergies, acquisitions and even share buybacks. The end result is earnings growth over a long-term investment horizon even if the business was perceived to be a value type business at the time of the initial investment.



QUALITY OVER QUANTITY

Excessive diversification, or holding too many investments, may be detrimental to overall portfolio performance. We believe it is better to approach each investment decision with conviction. In our view, to balance risk and performance most favourably, the ideal number of quality companies in each portfolio would generally be 0 to 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 is a signatory to the UN-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into our investment practices.



CONSTRUCTIVE ENGAGEMENT

NAOS entities are not activist investors; due to our investment approach it is common for NAOS to establish a substantial shareholding in a company with a long-term (five years+) investment horizon.

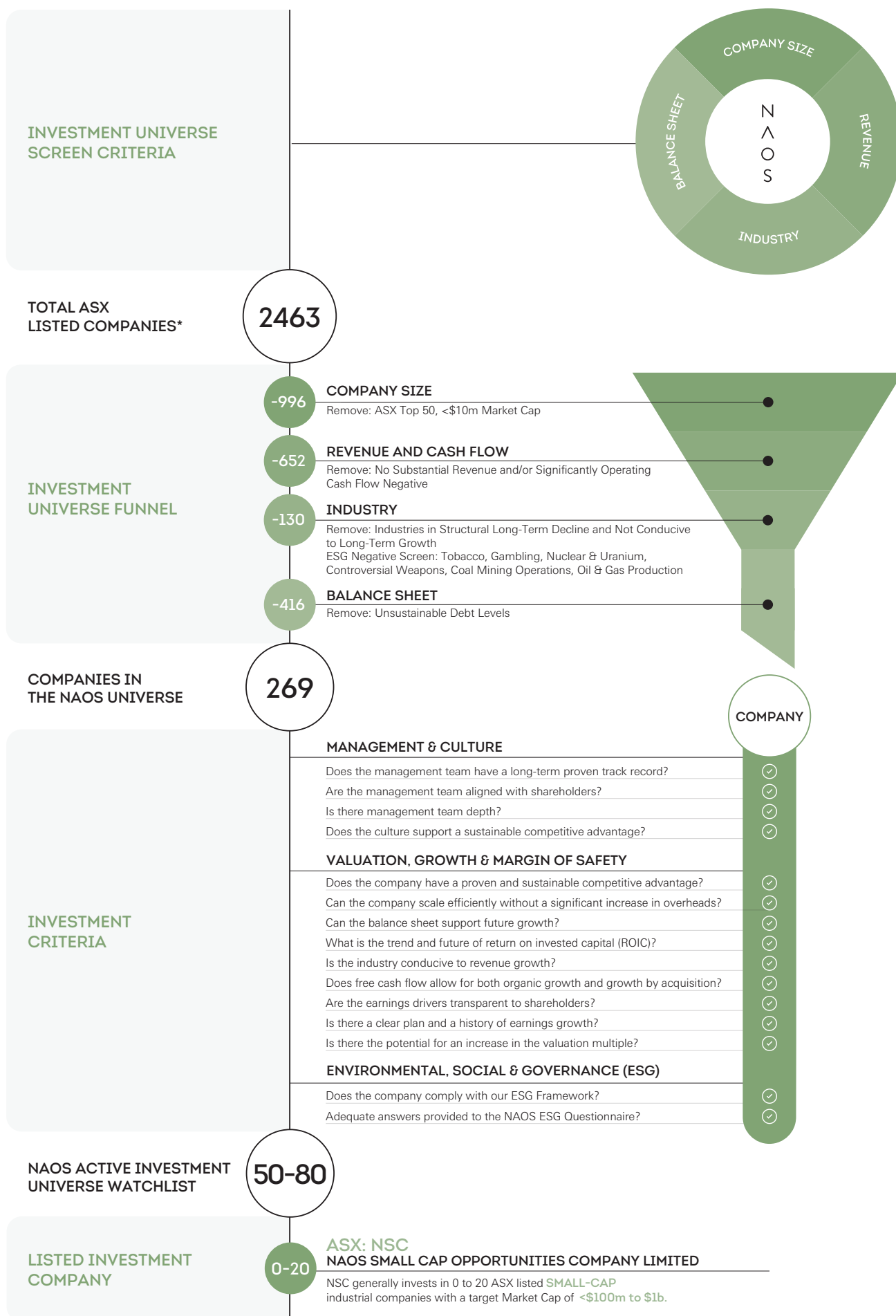
This approach allows us to supportively engage with the boards and/or management teams of our portfolio holdings.

Examples of constructive engagement where the NAOS investment team look to add value:

- Growth capital if/when required
- Messaging and communications
- Capital management decisions
- Company strategy
- Board composition

Further information about NAOS can be found at www.naos.com.au.

OUR INVESTMENT PROCESS



* Source: Bloomberg Data June 2020

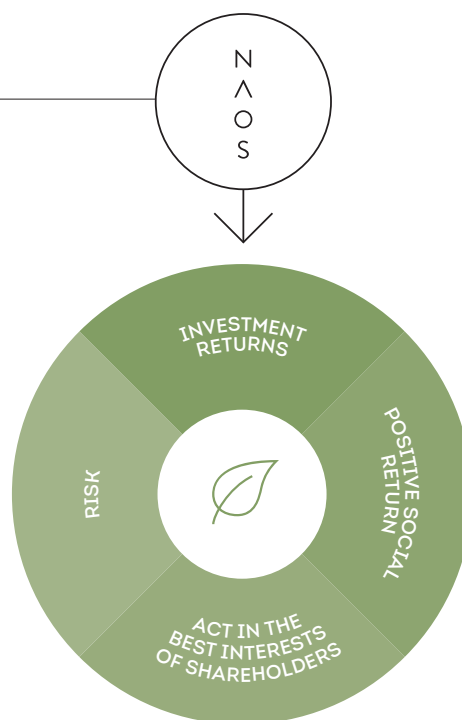
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OUR COMMITMENT TO RESPONSIBLE INVESTMENT

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

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

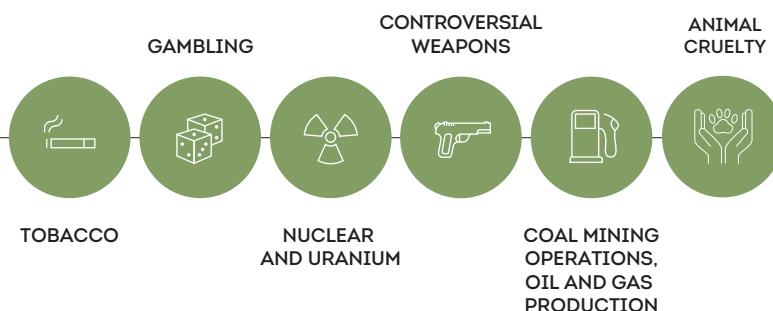
NAOS is a signatory to the United Nations supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into our investment practices.



02

NEGATIVE SCREENS

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



03

ESG FRAMEWORK

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



04

THE INCORPORATION OF ESG AND COMPANY QUESTIONNAIRE

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.

During FY20, NAOS developed and commenced the rollout of a comprehensive ESG questionnaire for core investee companies to complete. The questionnaire strengthens our existing ESG process and highlights how investee companies are making a positive difference.

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.

COMPANIES MAKING A DIFFERENCE

ENERO GROUP LIMITED (ASX: EGG)



The incorporation of ESG considerations into the investment process applies across all NAOS investments. During FY20, NAOS developed and commenced the rollout of a comprehensive ESG questionnaire for core investee companies to complete. The questionnaire strengthens the existing ESG process and highlights how companies within the investment portfolio are making a difference. Enero Group completed the questionnaire during FY20, and selected responses are shown below.

5+ YEARS

NAOS CORE INVESTMENT

\$122 MILLION

ENERO MARKET CAPITALISATION
30 JUNE 2020

INDUSTRY

INTERNATIONAL NETWORK OF MARKETING
AND COMMUNICATIONS BUSINESSES

“We are passionate about what we do and seek to inspire, and encourage, all who we encounter. We prize diversity of thought and human diversity in all its forms. We care about the world we live in as well as the results and outcomes that we achieve.”

(Enero Market Statement)

HOW ENERO IS MAKING A DIFFERENCE

THE FOLLOWING EXAMPLES WERE PROVIDED BY ENERO GROUP



ENVIRONMENTAL

Enero Group acknowledges the importance of complying with environmental provisions contained in the U.N. Global Impact Principles, with respect to the prevention of environmental degradation, promotion of environmental responsibility and the encouragement of environmentally friendly technology.

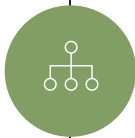
Enero Group is committed to reducing carbon emissions and air pollution through multiple initiatives. All employees are encouraged to either walk or catch public transport when reasonable.

The Sydney headquarters and some international offices are equipped with end-of-service facilities i.e. bike racks, car share services, on-site showers and change facilities.



SOCIAL

Enero has been instrumental in working with the Communications Council to produce the Reconciliation Action Plan (RAP) guidelines for all agencies. Marketing Services has been very slow to adopt much in the way to support Aboriginal and Torres Strait Islanders; therefore, this is a significant step forward for the industry and we are proud to have been leaders in this space. In addition to working on the RAP, we have also taken our second Aboriginal and Torres Strait Islander intern through the program Career Trackers. <https://www.careertrackers.org.au>.



GOVERNANCE

Enero Group promotes an environment which is conducive to the employment of well qualified employees, senior management and Board candidates regardless of gender, race or age. Women are well represented at Board and senior management level within the Company. Women represent 50% of the Board members, 40% of the Enero Executive team, approximately 50% of Senior Managers and more than 60% of employees across the Company.

OUR TEAM



**SEBASTIAN
EVANS**

Chief Investment Officer

See bio on page 2.



**BEN
RUNDLE**

Portfolio Manager

Ben joined NAOS in January 2015 as a Portfolio Manager.

Ben has been working in the financial markets since February 2006 and prior to joining NAOS he held various roles within the Financial Services Industry including roles at Macquarie Bank and most recently with Moelis and Company. Ben holds a Bachelor of Commerce, majoring in Accounting, from the University of South Australia.



**ROBERT
MILLER**

Portfolio Manager

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

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



**RICHARD
PREEDY**

Chief Financial and Operating Officer

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 14 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, is a fully qualified Chartered Accountant, and is a member of the Governance Institute of Australia.



**ANGELA
ZAMMIT**

Marketing and Communications Manager

Angela joined NAOS in May 2020 in the capacity of Marketing and Communications Manager.

Prior to joining NAOS, Angela held Marketing roles for companies in both Australia and the UK including SAI Global, American Express, Citibank and Arete Marketing.

Angela holds a Bachelor of Communications degree majoring in Advertising and Marketing from the University of Canberra.



**JULIE
COVENTRY**

Compliance Officer

Julie joined NAOS in November 2012 as Compliance Officer.

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



**JULIA
O'BRIEN**

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.



**NINA
DUNN**

Business Development Manager

Nina Dunn joined NAOS in July 2020 as the Business Development Manager. Prior to consulting, Nina worked as the Director of Marketing at Morrow Sodali. She has spent much of her career in the funds management industry working in senior investor relations and marketing roles for Wilson Asset Management, Ellerston Capital and Select Asset Management. She has a Bachelor of Arts (Business) from the University of Sydney and a Graduate Diploma of Financial Markets from the Financial Services Institute of Australia (FINSIA).

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).

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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 2020.

COMPANY INFORMATION

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Securities Exchange. Since 20 October 2017, the Company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services License 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 industrial 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 of the Company at any time since 1 July 2019 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 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).

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.

DIRECTORS' REPORT

Continued

Sebastian Evans, Non-independent Director

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

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

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

COMPANY SECRETARY INFORMATION

Laura Newell, Company Secretary

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 FTSE100 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).

MEETINGS OF DIRECTORS

The following table shows the number of Board meetings for the year ended 30 June 2020.

| | Year ended 30 June 2020 | |
|-------------------------------|-------------------------|----------|
| | Eligible to attend | Attended |
| Mr Trevor Carroll (Chairman) | 12 | 12 |
| Mr Sebastian Evans (Director) | 12 | 12 |
| Mr Warwick Evans (Director) | 12 | 12 |
| Mr David Rickards (Director) | 12 | 11 |

REVIEW OF OPERATIONS

The Company's operating profit before tax for the year ended 30 June 2020 was \$1,313,569 (30 June 2019: operating loss before tax of \$26,544,369), and operating profit after tax for the year of \$1,413,242 (30 June 2019: operating loss after tax of \$17,702,374). The profit for the year is primarily attributable to the strong performance of the investment portfolio, which in extremely volatile market conditions delivered a positive return of +2.59% for the financial year, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index which returned -5.67% for the financial year.

The post-tax Net Tangible Asset ("NTA") value per share of the Company has decreased from \$0.75 to \$0.73 over the year, driven mainly by the of 3.50 cents per share of fully franked dividends which were paid to shareholders during the year.

The on-market share buyback continued to be active during the financial year to take advantage of the discount of the share price relative to NTA. During the financial year, a total of 8,126,388 shares were bought back for a total consideration of \$5,384,826. The buyback of shares by the Company at a discount is accretive to NTA per share and as such the Board considers the buyback program to be an effective use of the Company's capital and thus in the interests of all shareholders.

During the year, the 265,000 listed convertible notes (ASX: NSCG) with a total face value of \$26.5 million were fully redeemed by the Company prior to their expiry date of 31 March 2020. The Company also completed the issue of \$27 million of unsecured notes with a five-year term, carrying an interest entitlement of 4.95% per annum.

Please refer to the Investment Manager's report on page 5 for further information regarding the performance of the Company.

FINANCIAL POSITION

The net tangible assets of the Company as at 30 June 2020 were \$115,842,070 (2019: \$125,455,488). Further information on the financial position of the Company is included in the Chairman's letter.

DIVIDENDS PAID OR PAYABLE

| Year ended 30 June 2020 | Dividend rate (cents per share) | Total amount \$'000 | % Franked | Date of payment |
|--|------------------------------------|------------------------|-----------|-------------------|
| 2019 Final quarterly dividend (declared on 22 August 2019) | 0.50 | 826 | 100% | 16 September 2019 |
| 2020 First quarterly interim dividend (declared on 17 October 2019) | 1.00 | 1,626 | 100% | 19 November 2019 |
| 2020 Second quarterly interim dividend (declared on 20 February 2020) | 1.00 | 1,597 | 100% | 18 March 2020 |
| 2020 Third quarterly interim dividend (declared on 18 May 2020) | 1.00 | 1,593 | 100% | 18 June 2020 |
| | | 5,642 | | |
| 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 | | |

Since 30 June 2020, the Board has declared a final dividend of 1.00 cents per share, fully franked, to be paid on 16 September 2020.

DIRECTORS' REPORT

Continued

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

On 20 August 2020, the Company has declared a fully franked dividend of 1.00 cents per share, payable on 16 September 2020.

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

LIKELY DEVELOPMENTS

The Company will be managed in accordance with the Constitution and 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 by Deloitte during the year. Refer to Note 13 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).

Remuneration of Directors

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 2020 and 30 June 2019 is disclosed below.

| | Short-term employee benefits Directors' Fees \$ | Post- employment benefit Super- annuation \$ | Total \$ |
|-------------------------------|---|---|-------------|
| 30 June 2020 | | | |
| Mr Trevor Carroll (Chairman) | 31,964 | 3,036 | 35,000 |
| Mr Warwick Evans (Director) | 22,831 | 2,169 | 25,000 |
| Mr David Rickards (Director) | 22,831 | 2,169 | 25,000 |
| Mr Sebastian Evans (Director) | — | — | — |
| Total | 77,626 | 7,374 | 85,000 |

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

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

DIRECTORS' REPORT

Continued

REMUNERATION REPORT (CONTINUED)

Interests in shares of the Company

Directors' relevant interests in ordinary shares are detailed below as at 30 June 2020 and 30 June 2019. There have been no changes since this date to the date of this report.

| Ordinary shares Year ended 30 June 2020 | Opening balance No. of shares | Acquired No. of shares | Sold No. of shares | Closing balance No. of shares |
|--|-------------------------------------|---------------------------|-----------------------|-------------------------------------|
| Mr Trevor Carroll (Chairman) | 171,951 | 10,073 | – | 182,024 |
| Mr Sebastian Evans (Director) | 1,158,500 | – | – | 1,158,500 |
| Mr Warwick Evans (Director) | 330,036 | 226,235 | – | 556,271 |
| Mr David Rickards (Director) | 299,567 | 17,548 | – | 317,115 |

| 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 (Chairman) | 157,755 | 14,196 | – | 171,951 |
| Mr Sebastian Evans (Director) | 859,500 | 299,000 | – | 1,158,500 |
| Mr Warwick Evans (Director) | 302,789 | 27,247 | – | 330,036 |
| Mr David Rickards (Director) | 274,836 | 24,731 | – | 299,567 |

REMUNERATION REPORT (CONTINUED)

Consequences of the Company's performance on shareholder wealth

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

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|---------|----------|---------|----------|-----------|
| Operating profit/(loss) after tax (\$'000) | 1,412 | (17,702) | 4,744 | (13,894) | 17,250 |
| Dividends (cents per share) | 4.00 | 4.00 | 5.50 | 6.60 | 6.30 |
| Level of franking on dividends (%) | 100 | 100 | 100 | 50 | 50 |
| NTA after tax (\$ per share) | 0.73 | 0.75 | 0.92 | 0.96 | 1.10 |
| Total Directors' remuneration (\$) | 85,000 | 85,000 | 111,572 | 309,800 | 1,572,883 |
| Shareholders' equity (\$'000) | 115,842 | 125,457 | 155,342 | 160,755 | 178,464 |

Directors' fees are not 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

20 August 2020



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

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

20 August 2020

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 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants

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Independent Auditor's Report to the Members of NAOS 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 2020, 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 2020 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 (including independence standards)* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key Audit Matters

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

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|---|
| <p><u>Valuation and existence of financial assets held at fair value through profit or loss</u></p> <p>As at 30 June 2020, the Company's listed equity securities held at fair value through profit or loss totalled \$134 million as disclosed in Notes 6 and 15.</p> <p>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.</p> <p>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.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> 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 2019 investment balance, purchases, sales, other relevant transactions and the 30 June 2020 investment balance. <p>We also assessed the appropriateness of the disclosures in Notes 6 and 15 to the financial statements.</p> |

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Deloitte.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, 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, actions taken to eliminate threats or safeguards applied.

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



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 21 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of NAOS Small Cap Opportunities Company Limited, for the year ended 30 June 2020, 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, 20 August 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | Year ended 30 June 2020 \$'000 | Year Ended 30 June 2019 \$'000 |
|---|------|--------------------------------------|--------------------------------------|
| Income | 3 | 6,625 | (21,719) |
| Expenses | | | |
| Management fees | | (1,756) | (1,923) |
| Transaction costs | | (622) | (498) |
| Interest expense | | (1,858) | (1,458) |
| Listing, custody and registry fees | | (255) | (243) |
| Legal and professional fees | | (108) | (68) |
| Amortisation costs | | (181) | (118) |
| Directors' remuneration expense | | (85) | (85) |
| Other expenses from ordinary activities | | (448) | (432) |
| Profit/(loss) before income tax expense | | 1,312 | (26,544) |
| Income tax benefit | 4 | 100 | 8,842 |
| Profit/(loss) for the year attributable to shareholders of the Company | | 1,412 | (17,702) |
| Other comprehensive income for the year, net of tax | | – | – |
| Total comprehensive income/(loss) for the year attributable to shareholders of the Company | | 1,412 | (17,702) |
| Basic and diluted earnings per share (cents per share) | 16 | 0.87 | (10.49) |

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

| | Note | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|---|------|---------------------------------|---------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 14 | 227 | 2,732 |
| Trade and other receivables | 7 | 409 | 688 |
| Prepayments | | 65 | 55 |
| Financial assets at fair value through profit or loss | 6 | 133,981 | 141,635 |
| Total current assets | | 134,682 | 145,110 |
| Non-current assets | | | |
| Deferred tax assets | 4 | 7,977 | 7,877 |
| Total non-current assets | | 7,977 | 7,877 |
| Total assets | | 142,659 | 152,987 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 8 | 523 | 1,120 |
| Borrowings | 9 | – | 26,410 |
| Total current liabilities | | 523 | 27,530 |
| Non-current liabilities | | | |
| Borrowings | 9 | 26,294 | – |
| Total non-current liabilities | | 26,294 | – |
| Total liabilities | | 26,817 | 27,530 |
| Net assets | | 115,842 | 125,457 |
| Equity | | | |
| Issued capital | 10 | 194,908 | 200,293 |
| Profits reserve | 11 | 23,543 | 7,620 |
| Accumulated losses | 11 | (102,609) | (82,456) |
| Total equity | | 115,842 | 125,457 |

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | Issued Capital \$'000 | Profits Reserve \$'000 | Accumulated Losses \$'000 | Total \$'000 |
|--------------------------------------|------|--------------------------|------------------------------|---------------------------------|-----------------|
| 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 |
| Balance at 1 July 2019 | | 200,293 | 7,620 | (82,456) | 125,457 |
| Profit for the year | | – | – | 1,412 | 1,412 |
| Transfer to profits reserve | | – | 21,565 | (21,565) | – |
| Dividends paid | | – | (5,642) | – | (5,642) |
| DRP shares allotted | | 742 | – | – | 742 |
| Purchase of shares on-market for DRP | | (742) | – | – | (742) |
| Shares bought back from shareholders | | (5,385) | – | – | (5,385) |
| Balance at 30 June 2020 | 10 | 194,908 | 23,543 | (102,609) | 115,842 |

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | Year ended 30 June 2020 \$'000 | Year ended 30 June 2019 \$'000 |
|--|--------------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Payments for purchase of investments | | (74,160) | (64,150) |
| Proceeds from sale of investments | | 84,909 | 67,606 |
| Dividends received | | 2,574 | 5,070 |
| Interest received | | 15 | 108 |
| Interest paid to note holders | | (2,126) | (1,458) |
| Income tax refund/(paid) | | 234 | (4,117) |
| Other payments | | (2,626) | (3,599) |
| Net cash provided by/(used in) operating activities | 14(b) | 8,820 | (540) |
| Cash flows from financing activities | | | |
| Dividend paid net of amounts reinvested | | (4,900) | (9,426) |
| Purchase of shares on-market for DRP | | (742) | (1,546) |
| Payments for buyback of shares | | (5,385) | (1,211) |
| Repayment of convertible notes | 9 | (26,500) | – |
| Net proceeds from issue of unsecured notes | 9 | 26,202 | – |
| Net cash used in financing activities | | (11,325) | (12,183) |
| Net decrease in cash and cash equivalents | | (2,505) | (12,723) |
| Cash and cash equivalents at the beginning of the year | | 2,732 | 15,455 |
| Cash and cash equivalents at the end of the year | 14(a) | 227 | 2,732 |

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 20 August 2020.

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

b) Prior Year Comparatives

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

c) Statement of Compliance

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

d) Reporting Currency

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

e) Going Concern Basis

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

f) Revenue and Income Recognition

Revenue

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

Net gains/(losses) on financial instruments held at fair value through profit or loss arising on a change in fair value 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.

Dividends

Dividend income is recognised on the ex-dividend date with any 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". This classification is determined by the purpose underpinning the acquisition of the investment. The classification of each financial instrument is re-evaluated at each financial period end.

(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 has 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Investments in Financial Instruments (continued)

(iii) Classification and subsequent measurement (continued)

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

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 Liabilities

Financial liabilities include trade and other payables, 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 as 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 the Investment Manager's fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

j) Receivables

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

k) Payables

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

l) Income Tax

The income tax expense/(benefit) comprises of 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Income Tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, 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 taxation authority. 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 is 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 and prior period tax losses, unrealised losses on investments, other accruals and share issue costs of \$7,977,386 as at 30 June 2020. 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. However, utilisation of the 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 of \$6,221,355 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. These Standards and Interpretations did not have a material impact on these financial statements.

New Accounting Standards and Interpretations not yet adopted

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

3. INCOME

| | Year ended 30 June 2020 \$'000 | Year Ended 30 June 2019 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Gains/(losses) on financial assets held at fair value through profit or loss | 4,015 | (26,712) |
| Interest income | 13 | 91 |
| Dividend income | 2,597 | 4,902 |
| Total income | 6,625 | (21,719) |

4. INCOME TAX

a) Income tax expense/(benefit)

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

| | Year ended 30 June 2020 \$'000 | Year ended 30 June 2019 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Prima facie income tax expense/(benefit) calculated at 30% | 394 | (7,963) |
| Less the tax effect of: | | |
| Imputation credit gross up | 212 | 382 |
| Franking credit offset | (706) | (1,274) |
| Non-deductible expenditure | – | 13 |
| At reporting date | (100) | (8,842) |

| | Year ended 30 June 2020 \$'000 | Year ended 30 June 2019 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Total Income tax expense/(benefit) results in a: | | |
| Under/(over) provision of prior year tax | – | 3 |
| Change in deferred tax liability | – | (1,308) |
| Change in deferred tax asset | (100) | (7,537) |
| At reporting date | (100) | (8,842) |

b) Deferred tax assets

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|----------------------------------|---------------------------------|---------------------------------|
| Tax losses | 6,221 | 1,938 |
| Accruals | 51 | 54 |
| Unrealised losses on investments | 1,705 | 5,885 |
| At reporting date | 7,977 | 7,877 |

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|--|---------------------------------|---------------------------------|
| Movement in deferred tax assets | | |
| Balance at the beginning of the period | 7,877 | 340 |
| Credited/(charged) to the statement of profit or loss and comprehensive income | 100 | 7,537 |
| At reporting date | 7,977 | 7,877 |

NOTES TO THE FINANCIAL STATEMENTS

Continued

5. DIVIDENDS PAID OR PAYABLE

| Year ended 30 June 2020 | Dividend rate (cents per share) | Total amount \$'000 | % Franked | Date of payment |
|--|------------------------------------|------------------------|-----------|-------------------|
| 2019 Final quarterly dividend (declared on 22 August 2019) | 0.50 | 826 | 100% | 16 September 2019 |
| 2020 First quarterly interim dividend (declared on 17 October 2019) | 1.00 | 1,626 | 100% | 19 November 2019 |
| 2020 Second quarterly interim dividend (declared on 20 February 2020) | 1.00 | 1,597 | 100% | 18 March 2020 |
| 2020 Third quarterly interim dividend (declared on 18 May 2020) | 1.00 | 1,593 | 100% | 18 June 2020 |
| | | 5,642 | | |

| 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 | 2,281 | 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 | | |

Since 30 June 2020, the Board has declared a final dividend of 1.00 cents per share, fully franked, to be paid on 16 September 2020.

Dividend Franking Information

| | Year ended 30 June 2020 \$'000 | Year ended 30 June 2019 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Franking credits available for shareholders from previous financial years | 3,596 | 2,907 |
| Impact on the franking account of dividends paid during the year | (2,418) | (4,702) |
| Impact on the franking account of dividends received during the year | 706 | 1,274 |
| Impact on franking account of income tax (received)/paid | (234) | 4,117 |
| Franking account balance at reporting date | 1,650 | 3,596 |

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

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|---|---------------------------------|---------------------------------|
| Investments in listed equities | 133,981 | 128,271 |
| Investment in listed unit trusts | – | 13,364 |
| Total financial assets at fair value through profit or loss | 133,981 | 141,635 |

Disclosed Fair Values

For all financial instruments other than those measured at fair value, their carrying value approximates fair value as they are either cash/cash equivalents and/or short-term in nature like trade and other payables/receivables.

7. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|-----------------------------|---------------------------------|---------------------------------|
| Other receivables | 409 | 635 |
| Unsettled trades receivable | – | 53 |
| Total | 409 | 688 |

Receivables are non-interest bearing and unsecured. Outstanding trades, i.e. "Unsettled trades receivable", are on the terms operating in the investment management industry which usually require settlement within two days of the date of the transaction. None of the receivables are past due or impaired at the end of the reporting period (2019: Nil).

8. TRADE AND OTHER PAYABLES

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|--------------------------|---------------------------------|---------------------------------|
| Current | | |
| Unsettled trades payable | 120 | 473 |
| Other payables | 403 | 647 |
| | 523 | 1,120 |

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

9. BORROWINGS

During the period the 265,000 listed convertible notes (ASX: NSCG) with a total face value of \$26.5 million were fully redeemed by the Company prior to their expiry date of 31 March 2020. Interest of \$1,094,797 and the face value of the convertible notes of \$26.5 million was paid up to the maturity date of 4 December 2019.

The Company also completed the issue of \$27 million unsecured notes with a five-year term, carrying an interest entitlement of 4.95% per annum. Terms of the unsecured notes are regulated under a trust deed between the Company and Equity Trustees Limited.

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|---|---------------------------------|---------------------------------|
| Opening balance of convertible notes | 26,410 | 26,292 |
| Add amortisation of costs for period | 90 | 118 |
| Repayment of convertible notes | (26,500) | – |
| Closing balance of convertible notes | – | 26,410 |

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|---|---------------------------------|---------------------------------|
| Opening balance of unsecured notes | – | – |
| Unsecured notes issued in the period | 27,000 | – |
| Less raising costs | (798) | – |
| Add amortisation of costs for period | 92 | – |
| Closing balance of unsecured notes | 26,294 | – |

NOTES TO THE FINANCIAL STATEMENTS

Continued

10. ISSUED CAPITAL

| | 30 June 2020 | | 30 June 2019 | |
|--|---------------|---------|---------------|---------|
| | No. of shares | \$'000 | No. of shares | \$'000 |
| Issued and paid up capital – Ordinary shares | 158,809,641 | 194,908 | 166,936,029 | 200,293 |

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 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 |
| 01 July 2019 | Opening balance | 166,936,029 | 200,293 |
| | Shares allotted under Dividend Reinvestment Plan | 1,214,783 | 742 |
| | Purchase of shares on-market for Dividend Reinvestment Plan | (1,214,783) | (742) |
| | Shares bought back | (8,126,388) | (5,385) |
| 30 June 2020 | Closing balance | 158,809,641 | 194,908 |

11. PROFITS RESERVE AND ACCUMULATED LOSSES

a) Profits reserve

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|----------------------------------|---------------------------------|---------------------------------|
| Opening balance | 7,620 | 18,592 |
| Transfer from retained earnings | 21,565 | – |
| Dividends paid | (5,642) | (10,972) |
| Balance at reporting date | 23,543 | 7,620 |

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 2020 \$'000 | As at 30 June 2019 \$'000 |
|---|---------------------------------|---------------------------------|
| Balance at the beginning of the year | (82,456) | (64,754) |
| Transfer to profits reserve | (21,565) | – |
| Profit/(loss) for the year attributable to the members of the Company | 1,412 | (17,702) |
| Balance at reporting date | (102,609) | (82,456) |

12. 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 2020:

- Management fees of \$1,756,356 (2019: \$1,922,772) (excluding RITC*) were incurred during the year.
- Management fees payable at 30 June 2020 were \$141,635 (2019: \$151,883) (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 2020 (2019: \$nil).

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

In addition, the Company has a services agreement with the Investment Manager to provide the use of premises and facilities, company secretarial, administrative, financial and accounting services. For the year ended 30 June 2020 the fees paid to the Investment Manager were \$180,000 (2019: \$180,000).

NOTES TO THE FINANCIAL STATEMENTS

Continued

13. AUDITOR'S REMUNERATION

| | Year ended 30 June 2020 \$ | Year ended 30 June 2019 \$ |
|--|----------------------------------|----------------------------------|
| Audit and other assurance services – Deloitte | | |
| Audit and review of financial reports | 55,000 | 55,000 |
| Total remuneration for audit and other assurance services | 55,000 | 55,000 |

14. CASH AND CASH EQUIVALENTS

a) Components of cash and cash equivalents

| | As at 30 June 2020 \$'000 | As at 30 June 2019 \$'000 |
|--------------|---------------------------------|---------------------------------|
| Cash at bank | 227 | 2,732 |

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

| | Year ended 30 June 2020 \$'000 | Year ended 30 June 2019 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Profit/(loss) for the year attributable to shareholders after tax | 1,412 | (17,702) |
| Adjustments for: | | |
| Change in value of financial assets designated at fair value through profit or loss | 7,654 | 30,708 |
| Depreciation and amortisation | 182 | 118 |
| Income tax benefit recognised in the Statement of Profit or Loss and Other Comprehensive Income | (100) | (8,842) |
| Income tax refunded/(paid) | 234 | (4,117) |
| Change in assets and liabilities: | | |
| (Decrease)/Increase in trade and other receivables | (269) | 623 |
| Decrease in trade and other payables | (293) | (1,328) |
| Net cash provided by/(used in) operating activities | 8,820 | (540) |

15. 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.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

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

(i) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The unsecured notes that were issued on 4 December 2019 pay a fixed rate of 4.95% per annum payable half-yearly on 31 May and 30 November each year until 2 December 2024.

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

| | Floating interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|-----------------------------------|-----------------|
| 30 June 2020 | | | |
| Assets | | | |
| Cash and cash equivalents | 227 | – | 227 |
| Receivables | – | 409 | 409 |
| Financial assets at fair value through profit or loss | – | 133,981 | 133,981 |
| Total assets | 227 | 134,390 | 134,617 |
| Liabilities | | | |
| Payables | – | 523 | 523 |
| Total liabilities | – | 523 | 523 |
| Net exposure | 227 | 133,867 | 134,094 |
| 30 June 2019 | | | |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

Continued

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Market Risk (continued)

(i) Interest Rate Risk (continued)

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

| | Change in basis points increase/(decrease) | Impact on operating profit/ Net assets attributable to shareholders (\$'000) |
|-------------------|---|--|
| 30 June 2020 | | |
| AUD interest rate | 25bps/(25bps) | 1/(1) |
| 30 June 2019 | | |
| AUD interest rate | 25bps/(25bps) | 7/(7) |

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

| | Impact on operating profit/ Net assets attributable to shareholders (\$) | |
|--------------|--|-----------|
| | -10% \$ | 10% \$ |
| 30 June 2020 | (13,398) | 13,398 |
| 30 June 2019 | (14,164) | 14,164 |

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

| | % of Portfolio | |
|--------------------------------------|----------------|--------------|
| Industry | 30 June 2020 | 30 June 2019 |
| Information Technology | 31.26% | 40.10% |
| Commercial and Professional Services | 18.07% | 12.91% |
| Construction Materials | 16.99% | 5.23% |
| Financials | 13.84% | 18.35% |
| Media | 10.74% | 9.18% |
| Real Estate | 7.45% | 9.45% |
| Travel and Leisure | 1.61% | — |
| Industrials | 0.02% | — |
| Telecommunications | 0.02% | — |
| Consumer Discretionary | — | 4.79% |
| Total | 100.00% | 100.00% |

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

c) Liquidity Risk

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

The Company's cash receipts depend upon the level of sales of securities, dividends and interest received or other capital management initiatives that may be implemented by the Board from time to time. 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 tradable 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 2020 and 30 June 2019 to the contractual maturity date.

| | 30 June 2020 | | | |
|--------------------------|---------------------|-----------------------|-----------------------|-----------------|
| | < 1 month \$'000 | 1-12 months \$'000 | > 12 months \$'000 | Total \$'000 |
| Trade and other payables | 523 | – | – | 523 |
| Borrowings | – | – | 26,294 | 26,294 |
| Total | 523 | – | 26,294 | 26,817 |

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

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

d) Fair Value Hierarchy

AASB 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.

NOTES TO THE FINANCIAL STATEMENTS

Continued

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Fair Value Hierarchy (continued)

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 2020 | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Financial assets | | | | |
| Investments in listed equities | 133,981 | – | – | 133,981 |
| Total financial assets designated at fair value through profit or loss | 133,981 | – | – | 133,981 |

| | 30 June 2019 | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Financial assets | | | | |
| Investments in listed equities | 128,271 | – | – | 128,271 |
| Investment in listed unit trusts | 13,364 | – | – | 13,364 |
| Total financial assets designated at fair value through profit or loss | 141,635 | – | – | 141,635 |

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 2020 and 30 June 2019.

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 placements, share purchase plans, option issues, unsecured notes issues, 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.

16. EARNINGS PER SHARE

| | Year ended 30 June 2020 cents | Year ended 30 June 2019 cents |
|--|-------------------------------------|-------------------------------------|
| Basic and diluted earnings per share | 0.87 | (10.49) |
| | Shares | Shares |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share | 161,591,522 | 168,692,949 |
| | \$'000 | \$'000 |
| Net profit/(loss) used in the calculation of basic and diluted earnings per share | 1,412 | (17,702) |

17. COMMITMENTS AND CONTINGENCIES

There are no commitments and contingencies as at 30 June 2020 (30 June 2019: Nil).

18. 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 2020 was \$85,000 (2019: \$85,000).

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 30 June 2020, NAOS Asset Management Limited holds 1,158,500 shares (2019: 1,158,500 shares) in the Company. Other than the disclosure at Note 12 and above 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 2020 | Opening balance No. of shares | Acquired No. of shares | Sold No. of shares | Closing balance No. of shares |
|--|-------------------------------------|---------------------------|-----------------------|-------------------------------------|
| Mr Trevor Carroll (Chairman) | 171,951 | 10,073 | – | 182,024 |
| Mr Sebastian Evans (Director) | 1,158,500 | – | – | 1,158,500 |
| Mr Warwick Evans (Director) | 330,036 | 226,235 | – | 556,271 |
| Mr David Rickards (Director) | 299,567 | 17,548 | – | 317,115 |

| 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 (Chairman) | 157,755 | 14,196 | – | 171,951 |
| Mr Sebastian Evans (Director) | 859,500 | 299,000 | – | 1,158,500 |
| Mr Warwick Evans (Director) | 302,789 | 27,247 | – | 330,036 |
| Mr David Rickards (Director) | 274,836 | 24,731 | – | 299,567 |

c) Other Transactions within the Company

Apart from those details disclosed in this note and note 12, 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.

19. 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.

20. SUBSEQUENT EVENTS

On 20 August 2020, the Company declared a fully franked dividend of 1.00 cents per share payable on 16 September 2020.

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

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- the financial statements and notes are in accordance with the Corporations Regulations 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the financial year ended 30 June 2020;
- 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

20 August 2020

ADDITIONAL INFORMATION

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

INVESTMENT PORTFOLIO

As at 30 June 2020 the Company had the following investments:

Big River Industries Limited

BSA Limited

Consolidated Operations Group Limited

Enero Group Limited

Eureka Group Holdings Limited

Experience Co Limited

Fineos Corporation Holdings PLC

Macquarie Telecom Group Limited

MNF Group Limited

Over The Wire Holdings Limited

Schaffer Corporation Limited

Tuas Limited

During the financial year ended 30 June 2020, the Company had 865 transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2020 were \$622,179.

ADDITIONAL INFORMATION

Continued

20 LARGEST SHAREHOLDERS

Details of the 20 largest ordinary shareholders along with their respective holdings as at 31 July 2020.

| Shareholders | Ordinary shares held | % of issued shares |
|--|-------------------------|-----------------------|
| HSBC Custody Nominees Pty Ltd | 11,799,429 | 7.46% |
| J P Morgan Nominees Australia Pty Ltd | 7,941,383 | 5.02% |
| Bond Street Custodians Limited | 6,429,999 | 4.07% |
| Gold Tiger Investments Pty Ltd | 2,175,000 | 1.38% |
| Beck Havas Pty Ltd | 1,251,991 | 0.79% |
| BNP Paribas Nominees Pty Ltd | 1,215,208 | 0.77% |
| NAOS Asset Management Limited | 1,158,500 | 0.73% |
| Mr James V C Guest & Mrs Sarah L Guest | 922,654 | 0.58% |
| Mrs Ida Rubin & Mr Ian Rubin & Mr Yuly Rubin | 900,041 | 0.57% |
| Somoke Pty Limited | 895,532 | 0.57% |
| Mr James V C Guest & Mrs Sarah L Guest | 891,764 | 0.56% |
| Angus Mac Pty Ltd | 873,575 | 0.55% |
| Lactic Investment Managers Pty Ltd | 800,000 | 0.51% |
| Mr Donald Gordon Mackenzie & Mrs Gwenneth Edna Mackenzie | 732,161 | 0.46% |
| Equitas Nominees Pty Ltd | 648,498 | 0.41% |
| Gee-Elle Pty Ltd | 640,000 | 0.40% |
| Tendword Pty Ltd | 600,000 | 0.38% |
| G H Kluge & Sons Ltd | 600,000 | 0.38% |
| W W E Investments Pty Ltd | 556,271 | 0.35% |
| Carmant Pty Ltd | 542,113 | 0.34% |
| Total | 41,574,119 | 26.28% |

SUBSTANTIAL SHAREHOLDERS

| Ordinary Shareholders | Ordinary shares held | % of issued shares |
|---------------------------------------|-------------------------|-----------------------|
| HSBC Custody Nominees Pty Ltd | 11,799,429 | 7.46% |
| J P Morgan Nominees Australia Pty Ltd | 7,941,383 | 5.02% |

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shares by size of shareholders as at 31 July 2020.

| Category | Number of shareholders | Ordinary shares held | % of issued shares |
|------------------|---------------------------|-------------------------|-----------------------|
| 1-1,000 | 401 | 134,552 | 0.09 |
| 1,001-5,000 | 773 | 2,403,667 | 1.52 |
| 5,001-10,000 | 665 | 5,371,666 | 3.40 |
| 10,001-100,000 | 2,165 | 70,380,850 | 44.50 |
| 100,001 and over | 234 | 79,875,358 | 50.50 |
| Totals | 4,238 | 158,166,093 | 100.00 |

VOTING RIGHTS

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

ASX LISTING

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

BUYBACK

For the financial year ended 30 June 2020 the Company bought back a total of 8,126,388 shares for a consideration of \$5,384,826. (2019: The Company bought back a total of 2,059,777 ordinary shares for a consideration of \$1,211,419).

UNMARKETABLE PARCELS

As at 31 July 2020 the number of shareholdings held in less than marketable parcels was 351.

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 (Director)
Warwick Evans (Director)

COMPANY SECRETARY

Laura Newell
Sebastian Evans

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

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W: www.naos.com.au

SHARE REGISTRY

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225 George Street
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Telephone: 1300 737 760

AUDITOR

Deloitte Touche Tohmatsu
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Sydney NSW 2000

