



NAOS EMERGING OPPORTUNITIES  
COMPANY LIMITED

Annual Report 2014

ACN 161 106 510



Our objective is to provide investors with high quality, transparent and concentrated exposure to emerging companies.

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### Annual General Meeting

AGM to be held at 11am (AEST)  
on Tuesday 25th November 2014  
at Taylor Collison, Level 10,  
167 Macquarie Street, Sydney 2000

## THE COMPANY

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

## OBJECTIVE

The Company was established on 6 November 2012 to invest primarily in a concentrated portfolio of listed entities that are not included in the S&P/ASX 100 Accumulation Index with the objective to provide investors with high quality, transparent and concentrated exposure to emerging companies, delivering an income stream of 4% per annum franked to the maximum extent possible and long term capital growth to investors above the benchmark index, being the S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI).

## BENCHMARK

The Company compares its performance with the S&P/ASX Small Ordinaries Accumulation Index (ASX: XSOAI).

## INVESTMENT MANAGER

The Company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services Licence Number 273529) (the "Investment Manager").

## CAPITAL STRUCTURE

The Company's capital structure comprises Ordinary Shares with attaching options on a one for one basis which are exercisable at \$1.00 (on or before 1 February 2015) and \$1.13 (on or before 1 August 2015) depending on the share issue. The attaching options are listed on the Australian Securities Exchange (ASX: NCCO and ASX: NCCOA respectively).

## RISK

The Company invests in shares listed on the ASX and unlisted securities. The value of the shares and the income derived may fall or rise depending on a range of factors. Refer to Section 4 of the prospectus of the Company and Note 17 of this financial report.

## MANAGEMENT AGREEMENT

The Company has an agreement with NAOS Asset Management Limited for the provision of management service, details of which are contained at Note 16.

Total Assets and Net Tangible Assets ("NTA")	30 June 2014 (\$)	30 June 2013 (\$)
Total assets	50,265,813	19,806,759
Undiluted NTA per share (pre-tax)	1.203	1.065
Undiluted NTA per share (net of deferred tax on unrealised gains)	1.167	1.057
Diluted NTA per share (pre-tax)	1.150	1.065
Diluted NTA per share (net of deferred tax on unrealised gains)	1.123	1.057



### SEBASTIAN EVANS

#### Director

Sebastian Evans has been a director of the Company since inception. He was appointed as director on 6 November 2012.

Sebastian Evans is the Managing Director of the Investment Manager. He is also the Portfolio Manager of Naos Emerging Companies Long Short Equity Fund and the Naos Long Short Equity Fund. Prior to this he was an Investment Analyst at the Investment Manager, focusing on emerging companies.

He holds a Masters of Applied Finance majoring in Investment Management as well as a Bachelor's Degree in Commerce, majoring in Finance and International Business. He also holds a Diploma in Financial Services and is RG146 Competent.

Sebastian is currently completing an Executive Masters of Business Administration (E) MBA from the Australian Graduate School of Management (AGSM/UNSW).

### WARWICK EVANS

#### Director

Warwick Evans has been a director of the Company since inception. He was appointed as director on 6 November 2012.

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

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

### DAVID RICKARDS

#### Independent Chairman

David has been a director and chairman of the Company from 20 November 2012.

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.

He is also currently the Director and Board Member of Social Enterprise Finance Australia, a Director and Treasurer at Bush Heritage Australia and a Consultant at 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).

### INFORMATION ABOUT THE INVESTMENT MANAGER

The investment manager of the Company is NAOS Asset Management Limited. The Investment Manager is a Sydney based privately owned boutique investment manager which commenced trading in January 2005. The Investment Manager is dedicated to superior stock selection in Australian equities listed on the ASX by taking an active, high conviction approach to investing. By thoroughly analysing companies with a long bias and focus on the small to mid-cap (emerging) sector of the Australian market, the Investment Manager aims to enhance returns for its clients.

For more information about the Investment Manager please refer the Naos website [www.naos.com.au](http://www.naos.com.au).

## FINANCIAL RECORD

<b>Net Tangible Assets</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
Undiluted NTA per share (pre-tax)	\$1.203	\$1.065
Undiluted NTA per share (post-tax)	\$1.167	\$1.057
Diluted NTA per share (pre-tax)	\$1.150	\$1.065
Diluted NTA per share (post-tax)	\$1.123	\$1.057
Share price	\$1.045	\$0.975
Option price (1 February 2015)	\$0.135	\$0.074
Option price (1 August 2015)	\$0.056	N/a

<b>Dividend Information</b>	<b>Cents per share</b>	<b>Franked amount per share</b>	<b>Tax rate for franking</b>
2014 Interim dividend	2.75	2.75	30%
2014 Final dividend	3.00	3.00	30%

### **Final Dividend Dates**

Ex-dividend date	20 November 2014
Record date	26 November 2014
Payment date	3 December 2014

### **Dividend Reinvestment Plan**

The Dividend Reinvestment Plan is in operation and the recommended fully franked final dividend of 3 cents per share qualifies. Participating shareholders will be entitled to be allotted the number of shares (rounded to the nearest whole number) which the cash dividend would purchase at the relevant issue price. The relevant issue price will be at a 1% discount to the price (calculated as the weighted average market price of shares sold on the ASX on the books closing date (record date) for the relevant dividend and the 3 trading days preceding that date) less the discount.



"THE COMPANY EXPERIENCED  
SIGNIFICANT GROWTH IN ITS  
BALANCE SHEET DURING THE  
YEAR, WITH A SUCCESSFUL  
PLACEMENT OF 11.82 MILLION  
SHARES."

The NAOS Emerging Opportunities Company reported an increase in profit after tax to \$4.85 million for the period ending 30 June 2014. As at the 30 June 2014, the after tax net tangible asset backing (NTA) of NCC was \$1.167 per share, up from \$1.057 last year. Total dividends declared for the year were 5.75 cents a share fully franked, comprising a 2.75 cent interim dividend and a 3 cent final dividend.

The gross investment portfolio performance was +30.48% over the financial year, a pleasing result against the Small Ordinaries Accumulation Index return of +13.11%, representing an outperformance of 17.37%. After deducting operating expenses, management and performance fees, the investment portfolio returned +25.02% for the year. It should be noted that this outperformance over 2014 has been achieved with an average cash and cash equivalents weighting of circa 25%, which further highlights the performance of the underlying securities relative to the benchmark.

Since initial public offering ("IPO"), the investment portfolio has returned +34.21% net of fees and expenses while the Small Ordinaries Accumulation Index has returned -6.01%, representing an outperformance of more than +40%. The board has endeavoured to return a portion of this to shareholders via tax effective dividends, with a total of 8.25c declared to date (5.25c paid to date) all fully franked.

The company experienced significant growth in its balance sheet during the year, with a successful placement of 11.82 million shares. This raised an additional \$13.36 million in additional capital.

The Board has been pleased with the rate at which the free attaching IPO options have been exercised by shareholders since the IPO. With the deadline for conversion of options still 7 months away, more than 27% of IPO options have been converted to ordinary shares. Early exercise of options has also entitled shareholders to receive dividends throughout the year.

Moving forward the board will continue to manage the capital base in a way that allows the investment manager to manage a nimble concentrated portfolio of long and short positions where the size of the fund provides a significant advantage for NCC compared to many of the much larger listed investment companies.

All directors of NCC were net acquirers of shares throughout the financial year 2014.

The Board would like to thank all shareholders for their continued support.

David Rickards  
Chairman  
25 September 2014



"WITH AN AVERAGE CASH & CASH EQUIVALENTS HOLDING OVER THE PERIOD OF CIRCA 25% THE ALPHA GENERATED BY BOTH LONG AND SHORT POSITIONS RELATIVE TO THE MARKET WAS SIGNIFICANT."

### FINANCIAL YEAR IN REVIEW

Financial year 2014 proved to be an excellent year for equity returns both domestically and globally. The All Ordinaries Accumulation Index returned +17.37% for the year and the S&P 500 outperforming with a return of +22%. Notably the benchmark of NCC continued to underperform its larger counterparts producing a positive return of just +13.11%. With 60% the ASX-200 Index comprised of Materials and Financials companies and both of these sectors posting gains of +18% and 22% respectively, this helped push the market significantly higher over the 12 month period.

### PORTFOLIO REVIEW

The NCC investment portfolio performance produced a gain of +30.48% (pre management and performance fees and post expenses) over the 12 month period outperforming the Small Ordinaries Accumulation Index by +17.37%. With an average cash & cash equivalents holding over the period of circa 25% the alpha generated by both long and short positions relative to the market was significant.

Pleasingly the performance derived over the 12 month period with a concentrated portfolio of only 10 – 20 positions was generated from 12 positions that added +1% to the NAV of NCC over the 12 month period. The NAOS philosophy of quality not quantity has continued to bear fruit in financial year 2014.

As certain positions are exited the names of these positions will be released in our positive attribution summary as per the recent table in our July Investment Report. As current and potential investors seek to gain further insight into the underlying composition of the current and past portfolio this disclosure should aid in an understanding of the Manager's investment philosophy and strategy.

### MARKET OUTLOOK

Equity markets continued to be buoyed by record low interest rates globally. In Australia, this has led to an appreciation in the share prices of companies that offer fully franked dividend yields in excess of term deposit rates. With the average P/E multiple of the ASX-200 Ex-Resources now over 15 times, combined with forecast earnings per share growth of sub 10% the domestic equity market now represents a period where share prices will be driven by company performance as opposed to rising along with the wider market due to low interest rate levels.

NCC continues to remain in a conservative position with a significant holding of >20% cash and cash equivalents together with underlying long positions that we believe offer excellent investment opportunities over the medium to long term.

The investment team holds the view that if markets continue to maintain or even increase from current levels without any sign of economic recovery, it will be prudent to supplement the cash weighting of the portfolio with a few strategic short positions within companies that are high risk, offer no dividends and have significant question marks around their sustainable competitive advantage. If the valuations of these companies is well above the risk adjusted fair value, then these may present excellent opportunities for the investment team to increase shareholder value and provide downside protection.

The NAOS team thanks all shareholders for their continued support of NCC.

A stylized handwritten signature in dark ink.

**Sebastian Evans**  
Managing Director/Portfolio Manager  
NAOS Asset Management Limited



*To ensure the Company operates effectively and in the best interests of shareholders, the Board 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 Company has adopted the ASX Corporate Governance Principles and Recommendations with 2010 Amendments for the 2014 financial year, subject to the exceptions noted below.*

### RESPECTIVE ROLES OF THE BOARD AND MANAGEMENT

These are covered under recommendation 1.1 to 1.3 of Principle 1 (*Lay a solid foundation of oversight*).

The Company has a Board but no full time employees. The Investment Manager has absolute and unfettered discretion to manage the Portfolio and to do all things considered necessary or desirable in relation to the Portfolio. Under the Management Agreement, the Investment Manager has discretion to acquire and dispose of investments on behalf of the Company. Investments consistent with the investment strategy may be undertaken without consultation with the Board. For any proposed investment that falls outside the investment strategy, the Investment Manager requires prior approval from the Board, which the Board may withhold at its absolute discretion. Consequently, there is no need to delegate functions to senior management or for a process to evaluate the performance of senior executives under recommendations 1.1, 1.2 and 1.3.

The role of the Board is to set strategic direction and to be responsible for the overall corporate governance of the Company which includes:

- Overseeing and monitoring the performance of the Investment Manager's compliance with the Management Agreement;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and appropriately managed;
- Approving the annual financial statements and related reports and other communications to the ASX and shareholders; and
- Setting appropriate business standards and code for ethical behaviour.

### STRUCTURE OF THE BOARD

This is covered under recommendation 2.1 to 2.6 of Principle 2 (*Structure of the Board to add value*).

The skills, experience, expertise relevant to the position and term of office of each Director who is in office at the date of the Annual Report are detailed on page 3.

The Board has one independent Director and two non-independent Directors. David Rickards is the Director that is considered to be independent because he has no direct involvement in the management of the portfolio and he is free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the independent exercise of his judgement. David Rickards is also the Chairman.

A diversity policy has not been established because the Company wishes to maintain a small board in order to minimise costs and increase shareholder returns, however, under Recommendations 3.2 to 3.5, diversity would be considered if a Board vacancy were to arise in the future. In the event of a vacancy arising, the Board will identify the candidates with an appropriate mix of skills, whilst being mindful of the need for diversity of age, gender and ethnicity.

It is the Board's policy that any committees established by the Board should be entitled to obtain independent professional or other advice at the cost of the Company unless the Board determines otherwise.

Given the size of the Board, a Nomination Committee has not been formed under recommendation 2.4. The Board believes that the formation of such a committee would be inefficient given the nature and size of the Company. It would not serve to protect or enhance the interests of the shareholders. The Board will deal with this issue as a whole. Should the size of the Company change the Board will consider establishing a separate nomination committee.

The Board reviews its performance by discussions and by individual communication with the chairman and by reference to generally accepted Board performance standards.

### PROMOTION OF ETHICAL AND RESPONSIBLE DECISION MAKING

This is covered under recommendation 3.1 to 3.5 of Principle 3 (*Promote ethical and responsible decision making*).

The Company has adopted a formal code of conduct. This is incorporated in the Company's Corporate Governance Charter ([www.naos.com.au](http://www.naos.com.au)). The Company requires all its directors to comply with the standards of behaviour and business ethics in accordance with the law and the code of conduct. These include acting honestly and with integrity and fairness in all dealings with others and each other, managing conflicts of interests, complying with the laws that govern the Company's business and its operations and acting ethically in their approach to business decisions.

As the Company has no full time employees and given the size of the Board, a diversity policy has not been established under Recommendations 3.2 to 3.5. The Board determines the appropriate policy concerning diversity. This policy includes a recommendation as to whether it is appropriate for the Board to establish measurable objectives for achieving gender diversity for the Board to access annually.

### INTEGRITY IN FINANCIAL REPORTING

This is covered under recommendation 4.1 to 4.4 of Principle 4 (*Safeguard integrity in financial reporting*).

An Audit Committee has not been established under recommendation 4.1 because the Board believes that the formation of such a committee would be inefficient given the nature and size of the Company. It would not serve to protect or enhance the interests of the shareholders. The Board will deal with this issue as a whole. Should the size of the Company change the Board will consider establishing a separate audit committee. Consequently, there is no need to disclose information under recommendations 4.2 to 4.3.

### ASX LISTING RULE COMPLIANCE

This is covered under recommendation 5.1 to 5.2 of Principle 5 (*Make timely and balanced disclosure*).

The Company operates under the continuous disclosure requirements of the ASX Listing Rules as set out in its Continuous Disclosure Policy ([www.naos.com.au](http://www.naos.com.au)). The Company ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to the material information concerning the Company.

The Company Secretary has the responsibility for ensuring that all relevant information is released to the market in a timely manner in consultation with the Board. The Company considers this to be a satisfactory protocol given its size and nature of the Company.

### RIGHTS OF SHAREHOLDERS

This is covered under recommendation 6.1 to 6.2 of Principle 6 (*Respect the rights of shareholders*).

The Board has developed a strategy within its Continuous Disclosure Policy ([www.naos.com.au](http://www.naos.com.au)) to ensure that shareholders are informed of all major developments affecting the Company's performance, activities and state of affairs. This includes having a website to facilitate communication with shareholders via electronic methods. In addition the Company publishes regular shareholder communications, such as half yearly and annual reports and provides shareholders with an opportunity to access such reports and other releases electronically.

The Board encourages full participation of shareholders at the Company's annual general meetings and any general meetings to ensure a high level of accountability and identification with the Company's strategy. The external auditor is also invited to the annual general meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report.

### RISK MANAGEMENT

This is covered under recommendation 7.1 to 7.4 of Principle 7 (*Recognise and manage risk*).

Due to the size of the Company, the responsibility for the effectiveness of risk management and internal compliance and control will rest with the Board. The Board will liaise with and oversee the application by the Investment Manager of the risk management protocols. Consequently the Company has not complied with recommendation 7.1.

As a small Company, the Board works closely with the Investment Manager to identify and manage operational, financial and compliance risks which could prevent the Company from achieving its objectives.

The Investment Manager is responsible for preparing the declaration pursuant to Section 295A of the Corporations Act as the Company does not have a chief executive officer (or equivalent) or a chief financial officer (or equivalent). Accordingly the Board seeks to procure that the Investment Manager puts in place sound systems of risk management and financial controls and ensure that the systems are operating effectively in all material respects.

### FAIR REMUNERATION

This is covered under recommendation 8.1 to 8.4 of Principle 8 (*Remunerate fairly and responsibly*).

A Remuneration Committee has not been established under recommendation 8.1 because the Board believes that the formation of such a committee would be inefficient given the nature and size of the Company. It would not serve to protect or enhance the interests of the shareholders. The Board will deal with this issue as a whole. Should the size of the Company change, the Board will consider establishing a separate Remuneration Committee. Consequently, the Company has not complied with recommendation 8.1 and 8.2.

The Company does not have any executive directors or senior executives. The remuneration of all the non-executive directors is disclosed in the Prospectus and on in Note 14 of this financial report.

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## DIRECTORS' REPORT

The directors of NAOS Emerging Opportunities Company Limited ACN 161 106 510 ("the Company"), submit their report for the Company for the year ended 30 June 2014.

### COMPANY INFORMATION

#### Directors and Officers

The names of the directors of the Company, in office from inception and up to the date of this report are:

Name	Title
David Rickards	Independent Chairman
Warwick Evans	Director
Sebastian Evans	Director

Further details regarding the directors' qualifications and experience is set out on page 3 of the annual report.

### MEETINGS OF DIRECTORS

The following table shows the number of board meetings held during the financial year ended 30 June 2014 and the period ended 30 June 2013.

	Year ended 30 June 2014		Period ended 30 June 2013	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr David Rickards (Chairman)	11	11	4	4
Mr Warwick Evans (Director)	11	10	4	4
Mr Sebastian Evans (Director)	11	11	4	4

### INTEREST IN SHARES OF THE COMPANY

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

	30 June 2014 Relevant interests (Shares)	30 June 2013 Relevant interests (Shares)
Mr David Rickards (Chairman)	534,731	240,000
Mr Warwick Evans (Director)	1,565,774	1,489,950
Mr Sebastian Evans (Director)	749,455	290,859

### OTHER DIRECTORSHIPS

David Rickards is currently the Director of Social Enterprise Finance Australia and a Director at Bush Heritage Australia.

Sebastian Evans is currently the Managing Director of NAOS Asset Management Limited.

### PRINCIPAL ACTIVITIES

The Company was constituted on 6 November 2012 to invest primarily in a concentrated portfolio of listed entities that are not included in the S&P/ASX 100 Accumulation Index with the objective of providing investors with high quality and concentrated exposure to emerging companies.



## REVIEW OF OPERATIONS

### Results

Please refer to the Investment Manager's report on page 6 regarding the performance of the Company.

The results of the operations of the Company are disclosed in the Statement of Profit or Loss and Other Comprehensive Income of these financial statements. The results and dividends for the year ended 30 June 2014 and period ended 30 June 2014 were as follows:

	Year ended 30 June 2014 \$	Period from 6 November 2013 to 30 June 2013 \$
Profit before income tax	6,089,719	1,310,188
Income tax expense	(1,234,865)	(202,380)
<b>Profit for the year/period</b>	<b>4,854,854</b>	<b>1,107,808</b>
<b>Profit for the period attributable to members</b>	<b>4,854,854</b>	<b>1,107,808</b>

### Dividends Paid or Payable

On 18 February 2014, the Company declared a fully franked interim dividend of \$0.0275 per share (2013: \$ nil).

### Net Assets

As at 30 June 2014 and 30 June 2013, the net assets of the Company were:

	30 June 2014 \$	30 June 2013 \$
Net assets at fair value	41,091,531	18,295,029
Undiluted NTA per share (pre-tax)	1.203	1.065
Undiluted NTA per share (post-tax)	1.167	1.057
Diluted NTA per share (pre-tax)	1.150	1.065
Diluted NTA per share (post-tax)	1.123	1.057

In the calculation of diluted NTA per share, options expiring on 1 August 2015 are not considered to have a dilutive effect, as the average market price of ordinary shares of the Company during the year did not exceed the exercise price of the options.

The fair value of financial assets traded in an active market is based on their quoted market price at the reporting date without any deduction for estimated future selling costs.

### Significant Changes in State of Affairs

On 21 November 2013, the Company announced that it had received commitments for a two tranche placement of shares to professional and sophisticated investors. The shares were to be issued at \$1.13 which was the estimated pre-tax net tangible assets per share of the Company (unaudited) post dilution for the options that remained on issue as at 15 November 2013.

On 27 November 2013 the Company issued 1,200,000 shares at \$1.13 per share as Tranche 1 of the placement.

On 13 January 2014 the Company issued 10,620,000 shares at \$1.13 per share as Tranche 2 of the placement.

Each placement share has a free attaching listed option exercisable at \$1.13 on or before 1 August 2015.

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

## DIRECTORS' REPORT

Continued

### Subsequent Events

On 11 August 2014, the Company announced a fully franked dividend of 3 cents per share.

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

### Likely Developments

The Company will be managed in accordance with the Constitution and investment objectives as detailed in the Prospectus dated 22 November 2012.

### 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.

## REMUNERATION REPORT

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).

### Directors and Officers

The names of the directors of the Company, in office from inception and up to the date of this report are:

Name	Title
David Rickards	Independent Chairman (appointed from 20 November 2012)
Warwick Evans	Director (appointed from 6 November 2012)
Sebastian Evans	Director (appointed from 6 November 2012)

### Remuneration of Directors

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

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

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

The results for the year/period and key indicators of the financial performance are disclosed in the following table:

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Income	7,678,566	1,771,977
Net profit before tax	6,089,719	1,310,188
Net profit after tax	4,854,854	1,107,808
Share price at the start of the year/period	0.9750	1.0000
Share price at the end of the year/period	1.0450	0.9750
Interim dividend <sup>1</sup>	2.75 cents	–
Final dividend <sup>1,2</sup>	3.00 cents	2.50 cents
Basic earnings per share	19.16 cents	6.40 cents
Diluted earnings per share	18.54 cents	6.40 cents

1 Fully franked at 30% corporate income tax rate.

2 Declared after the end of the reporting year/period.

Directors' remuneration received for the year ended 30 June 2014 and the period ended 30 June 2013 is disclosed below:

	Short-term employee benefits Cash salary and fees \$	Post- employment benefits Superannuation \$	Total \$
<b>Year ended 30 June 2014</b>			
Mr David Rickards (Chairman)	32,110	2,890	35,000
Mr Warwick Evans (Director)	9,174	826	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,284</b>	<b>3,716</b>	<b>45,000</b>
<b>Period from 6 November 2012 to 30 June 2013</b>			
Mr David Rickards (Chairman)	11,349	1,021	12,370
Mr Warwick Evans (Director)	3,242	292	3,534
Mr Sebastian Evans (Director)	–	–	–
	<b>14,591</b>	<b>1,313</b>	<b>15,904</b>

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)

During the financial year ended 30 June 2014 and the period ended 30 June 2013, the relevant interests of the Directors and their related parties in the shares of the Company were:

Ordinary shares Year ended 30 June 2014	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	240,000	294,731	–	534,731
Mr Warwick Evans (Director)	1,489,950	75,842	–	1,565,774
Mr Sebastian Evans (Director)	290,859	458,596	–	749,455

Ordinary shares Period from 6 November 2012 to 30 June 2013	Opening balance No of shares	Net acquired No of shares	Net sold No of shares	Closing balance No of shares
Mr David Rickards (Chairman)	–	240,000	–	240,000
Mr Warwick Evans (Director)	–	1,489,950	–	1,489,950
Mr Sebastian Evans (Director)	–	290,859	–	290,859

### NON-AUDIT SERVICES

No non-audit services were provided during the year. Refer to Note 12 of this financial report for details of auditor remuneration.

### ROUNDING

The amounts contained in this report and in the financial statements have not been rounded to the nearest thousand dollars under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

### 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 15.

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



Sebastian Evans  
Director  
25 September 2014



## AUDITOR'S INDEPENDENCE DECLARATION

An independent auditor's report shall be prepared by the auditor in accordance with Australian Auditing Standards.



Deloitte Touche Tohmatsu  
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The Board of Directors  
Naos Emerging Opportunities Company Limited  
Level 4, Domain House  
139 Macquarie Street  
Sydney, NSW, 2000

25 September 2014

Dear Directors,

### **Naos Emerging Opportunities Company Limited**

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

As lead audit partner for the audit of the financial statements of the financial statements of Naos Emerging Opportunities Company Limited for the financial year ended 30 June 2014, 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

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that reads "Declan O'Callaghan".

Declan O'Callaghan  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

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

### **Report on the Financial Report**

We have audited the accompanying financial report of Naos Emerging Opportunities Company Limited which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended 30 June 2014, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company as set out on pages 19 to 49.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Member of Deloitte Touche Tohmatsu Limited



#### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Naos Emerging Opportunities Company Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

#### *Opinion*

In our opinion:

- (a) the financial report of NAOS Emerging Opportunities Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended 30 June 2014; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

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

We have audited the Remuneration Report included in pages 13 to 14 of the directors' report for the year ended 30 June 2014. 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.

#### *Opinion*

In our opinion the Remuneration Report of NAOS Emerging Opportunities Company Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 25 September 2014

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Note	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
<b>Income</b>	3	7,678,566	1,771,977
<b>Expenses</b>			
Interest expense		(27,215)	(5,399)
Management fees	16	(401,601)	(80,435)
Performance fees	16	(702,521)	(265,041)
Administration fees		(43,494)	(11,051)
Directors' remuneration		(45,000)	(13,918)
Other expenses	4	(369,016)	(85,945)
<b>Profit before income tax expense</b>		6,089,719	1,310,188
Income tax expense	5	(1,234,865)	(202,380)
<b>Profit for the year attributable to shareholders of the Company</b>		4,854,854	1,107,808
Other comprehensive income		–	–
<b>Total comprehensive income for the year attributable to shareholders of the Company</b>		4,854,854	1,107,808
<b>Basic earnings per share</b>	18	19.16 cents	6.40 cents
<b>Diluted earnings per share</b>	18	18.54 cents	6.40 cents

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



**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2014**

	Note	30 June 2014 \$	30 June 2013 \$
<b>Assets</b>			
Cash and cash equivalents	13	4,394,144	677,683
Trade and other receivables	7	1,278,029	960,061
Financial assets at fair value through profit or loss	8	44,239,857	17,942,659
Deferred tax assets	5 (d)	353,783	226,356
<b>Total assets</b>		<b>50,265,813</b>	<b>19,806,759</b>
<b>Liabilities</b>			
Bank overdraft	13	–	559,264
Trade and other payables	9	1,194,003	583,660
Financial liabilities at fair value through profit or loss	8	6,334,600	–
Provision for income tax		298,919	–
Deferred tax liabilities	5 (e)	1,346,760	368,806
<b>Total liabilities</b>		<b>9,174,282</b>	<b>1,511,730</b>
<b>Net assets</b>		<b>41,091,531</b>	<b>18,295,029</b>
<b>Equity</b>			
Issued capital – Ordinary shares	10	34,331,475	15,700,572
Share option reserve	11 (b)	2,177,064	1,486,649
Retained earnings	11 (a)	4,582,992	1,107,808
<b>Total equity</b>		<b>41,091,531</b>	<b>18,295,029</b>

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

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Issued capital \$	Share option reserve \$	Retained earnings \$	Total \$
Balance at 6 November 2012	–	–	–	–
Profit for the period	–	–	1,107,808	1,107,808
Other comprehensive income for the period	–	–	–	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>1,107,808</b>	<b>1,107,808</b>
Shares issued during the period	15,700,572	–	–	15,700,572
Share option reserve	–	1,486,649	–	1,486,649
<b>Balance at 30 June 2013</b>	<b>15,700,572</b>	<b>1,486,649</b>	<b>1,107,808</b>	<b>18,295,029</b>
Balance at 1 July 2013	15,700,572	1,486,649	1,107,808	18,295,029
Profit for the year	–	–	4,854,854	4,854,854
Other comprehensive income for the year	–	–	–	–
<b>Total comprehensive income for the year</b>	<b>15,700,572</b>	<b>1,486,649</b>	<b>5,962,662</b>	<b>23,149,883</b>
Shares issued during the year	11,917,783	1,438,817	–	13,356,600
Share placement fees net of tax	(182,053)	–	–	(182,053)
Dividends paid	–	–	(1,379,670)	(1,379,670)
Dividend reinvestment	1,379,670	–	–	1,379,670
Share option exercise	4,767,101	–	–	4,767,101
Transfer from share option reserve	409,336	(409,336)	–	–
<b>Balance at 30 June 2014</b>	<b>33,992,409</b>	<b>2,516,130</b>	<b>4,582,992</b>	<b>41,091,531</b>

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

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Note	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
<b>Cash flows from operating activities</b>			
Dividends received		2,056,233	637,586
Interest received		85,355	133,588
Management and performance fees paid		(607,552)	(65,329)
Directors' remuneration paid		(42,437)	(1,440)
Other payments		(483,400)	(53,841)
<b>Net cash provided by operating activities</b>	13 (b)	<b>1,008,199</b>	<b>650,564</b>
<b>Cash flows from investing activities</b>			
Payments from purchase of investments		(109,827,528)	(32,610,689)
Proceeds from sale of investments		95,229,059	14,964,874
<b>Net cash used in investing activities</b>		<b>(14,598,469)</b>	<b>(17,645,815)</b>
<b>Cash flows from financing activities</b>			
Receipts from share issues		13,356,600	17,313,439
Receipts from dividend reinvestment plan		850,833	–
Dividends paid		(823,809)	–
Receipts from option exercise		4,767,101	–
Initial public offering commission paid		–	(199,769)
Placement fees paid		(284,730)	–
<b>Net cash provided by financing activities</b>		<b>17,865,995</b>	<b>17,113,670</b>
<b>Net increase in cash and cash equivalents</b>		<b>4,275,725</b>	<b>118,419</b>
Cash and cash equivalents at the beginning of the year/period		118,419	–
<b>Cash and cash equivalents at the end of the year/period</b>	13 (a)	<b>4,394,144</b>	<b>118,419</b>
<b>Non-cash activities – Dividend reinvestment</b>		<b>528,837</b>	<b>–</b>

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

## GENERAL INFORMATION

Naos Emerging Opportunities Company Limited (the "Company") is an Australian registered managed investment Company listed on the Australian Securities Exchange (ASX:NCC). The Company was constituted on 6 November 2012 and commenced operations on 22 February 2013.

The registered office and principal place of business of the Company is Level 4, Domain House 139 Macquarie Street Sydney NSW 2000.

Naos Assets Management Limited is the investment manager for the Company.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of Preparation

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

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

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

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

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

### b) 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 AASB and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (the "IASB").

### c) Reporting Currency

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

### d) Going Concern Basis

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

### e) Revenue and Income Recognition

#### Revenue

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

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

#### Dividends

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

## Interest Income

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

### f) Cash and Cash Equivalents

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

### g) Investments in Financial Instruments

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

#### i) Classification

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

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

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

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

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

### *ii) Recognition/derecognition*

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

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

### *iii) Measurement*

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

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

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

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

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

#### *Financial instruments – Convertible Note*

In terms of the fair value hierarchy the convertible note is categorised as Level 3 given that it is not traded in an active market and would be measured using valuation techniques which include market data inputs that are not observable.

For the purposes of the Corporations Act and all other purposes, the Board of Directors resolved that the calculation of the fair value of the holding in the secured

convertible note is as follows. The note receives a 12% interest payment, payable at the end of June (either in cash or by way of script at a 15% discount to the volume weighted average price of the shares) and also has the option to be converted into ordinary shares at any time at 50 cents per share, based on the value of the note, inclusive of any interest. For the purposes of producing a monthly NTA and the preparation of statutory financial reports, the Board of Directors resolved to calculate the value of the note based on the total value of the accrued interest and bid price on the last trading day of the shares. This is due to the illiquidity in the listed shares and a preference to price the note conservatively.

Differences may arise primarily due to short-term changes in the markets assessment of the credit risk of the underlying Company.

### **h) Expenses**

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

### **i) 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 (e) above. Receivables include such items as Reduced Input Tax Credits ("RITC").

### **j) 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 owing by the Company which are unpaid as at the end of the reporting period.

### **k) Taxation**

The income tax expense comprises current and deferred tax.

Current income tax expense is the tax payable 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 substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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

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



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

### l) 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.

### m) Foreign Currency Transactions

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

### 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) Share Option Reserve

The share option reserve is measured at the fair value of the Options at the date of issue. Subsequent to this date, the share option reserve is adjusted, with a corresponding entry to share capital, only on exercise of the Options by shareholders for the amount residing in the share option reserve relating to the Options exercised.

At the end of the Option periods (1 February 2015 and 1 August 2015), the amount relating to unexercised Options residing in the share option reserve, will be transferred to a capital reserve.

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

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

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

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

### q) Earnings Per Share

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

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

### r) Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The assumptions and methods used in the determination of the value of investments are outlined in notes 1 (g) of these financial statements.

## 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'.

- This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result the Company only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. The adoption of this amending standard does not have any material impact on the financial statements.

AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'.

- The Company has applied the amendments to AASB 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments does not have any material impact on the financial statements.

*AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'*

- AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant.

- *Change to bid/ask prices for actively quoted financial instruments*  
AASB 13 also removes the requirement to use bid/ask prices for actively quoted financial instruments. Rather the most representative price within the bid/ask spread is used. The Company has elected to use the last traded price and the directors will ensure that the last traded price used by the Company, at the reporting date falls within the bid/ask spread as at that date. Where it falls outside the bid/ask spread, an alternative basis most representative of fair value within the bid/ask spread, will be used.

AASB 13 allows prospective application of the change to bid and ask prices hence fair value measurements in previous periods have not changed. If the standard was to be retrospectively applied the impact on net assets would have been \$148,617, which is the difference between net market value (for net tangible asset reporting) and fair value (financial statements) of the financial assets held at fair value through profit or loss.

Standards and Interpretations that are not expected to have a material impact on the Company have not been included.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting period and have not been early adopted by the Company. The Directors' assessment of the impact of these standards (to the extent relevant to the Company) and interpretations is set out below:

AASB 9 '*Financial Instrument*' (2009 or 2010 version), AASB 2009-11 '*Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*', AASB 2012-6 '*Amendments to Australian Accounting Standards*' – Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 '*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instrument*' (effective for annual reporting periods beginning on or after 1 January 2018).

- AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption.

The directors do not expect this to have a significant impact on the recognition and measurement of the Company's financial instruments as they are carried at fair value through profit or loss.

The Company has not yet decided when to adopt AASB 9.

*IFRS 15 'Revenue from Contracts with Customers'*

- IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 '*Revenue*', IAS 11 '*Construction Contracts*' and related Interpretations. The key principle of this standard is that an entity will recognise revenue when it transfers promised goods or services to customers for an amount that reflects its expected consideration.

The directors of the Company are currently evaluating the impact of the revised accounting standard and have not early adopted IFRS 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 3. INCOME

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Unrealised gains on financial instruments held at fair value through profit or loss	3,253,632	1,228,956
Realised gains/(losses) on financial instruments held at fair value through profit or loss	2,269,630	(230,531)
Interest income	91,571	135,966
Dividend income	2,056,233	637,586
Other income	7,500	–
	7,678,566	1,771,977

### 4. OTHER EXPENSES

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Annual general meeting fees	(2,750)	(957)
Australian stock exchange fees	(23,470)	(13,302)
Auditor's remuneration	(31,185)	(27,000)
Brokerage fees	(36,740)	(2,464)
Custody fees	(18,636)	–
Initial public offering commission	–	(2,000)
Insurance fees	(28,956)	(6,698)
Legal fees	(15,659)	–
Other fees	(158,138)	(13,323)
Registry fees	(47,982)	(14,701)
Tax fees	(5,500)	(5,500)
Total other expenses	(369,016)	(85,945)

## 5. INCOME TAX

### a) Income Tax Expense

The aggregate amount tax expense attributable to the period differs from the amount calculated on the profit for the period.

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Differences are reconciled as follows:		
Profit for the year/period before income tax expense	6,089,719	1,310,188
Prima facie income tax expense calculated at 30%	1,826,916	393,056
Adjustment to income tax due to:		
Franking credits on dividends received	253,736	82,575
Franking credits offset	(845,787)	(273,251)
Income tax expense	1,234,865	202,380

### b) Income Tax Expense Recognised in the Statement of Comprehensive Income

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Deferred income tax relating to origination and reversal of temporary differences	935,946	202,380
Current year/period tax expense	298,919	–
Income tax expense	1,234,865	202,380

### c) Current Income Tax Benefit

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Income tax receivable	–	–

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 5. INCOME TAX (CONTINUED)

#### d) Deferred Tax Asset

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

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Deferred tax asset on initial public offering commission	35,958	47,945
Deferred tax asset on placement fees	68,336	–
Deferred tax on excess franking credits	–	74,589
Other temporary differences	249,489	103,822
	353,783	226,356

#### e) Deferred Tax Liability

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Deferred income tax liability on unrealised gains on fair value of investments	1,344,776	368,687
Other temporary differences	1,984	119
	1,346,760	368,806

#### f) Income Tax Recognised in Equity

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Deferred tax		
Initial public offering fees	–	73,551
Placement fees	85,419	–
Total income tax benefit recognised directly in equity	85,419	73,551

## 6. DIVIDEND PAID OR PAYABLE

	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2013 final dividend (declared 27 August 2013)	2.50	436,166	30%	23 October 2013
2014 interim dividend (declared 18 February 2014)	2.75	943,504	30%	15 April 2014
		1,379,670		

Dividends payable at 30 June 2014 were \$27,024 (2013: \$ nil).

### Dividend Franking Information

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Franking credits available for shareholders from previous financial periods	273,251	–
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	–
Impact on the franking account of dividends paid during the year/period	(591,287)	
Impact on the franking account of dividends received during the year/period	845,787	273,251
Adjusted franking account balance	527,751	273,251
Estimate impact on franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the year/period	452,906 <sup>1</sup>	–

<sup>1</sup> This calculation is based on the number of shares on issue as at 30 June 2014.

## 7. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	30 June 2014 \$	30 June 2013 \$
GST receivable	82,982	51,113
Interest receivable	6,612	396
Other receivables	16,056	6,996
Return of capital receivable	–	901,556
Receivable from investments sold	1,119,569	–
Prepaid fees	52,810	–
	1,278,029	960,061

Receivables are non-interest bearing and unsecured. Outstanding trades are on the terms operating in the security industry which usually require settlement within three days of the date of the transaction. None of the receivables are past due or impaired at the end of the reporting period.



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 8. INVESTMENTS IN FINANCIAL INSTRUMENTS

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

	30 June 2014 \$	30 June 2013 \$
Investment in ordinary shares	43,009,857	17,062,659
Investment in unlisted convertible notes	1,230,000	880,000
<b>Total financial assets at fair value through profit or loss</b>	<b>44,239,857</b>	<b>17,942,659</b>

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

	30 June 2014 \$	30 June 2013 \$
Investment in ordinary shares – short sales	6,334,600	–
<b>Total financial liabilities at fair value through profit or loss</b>	<b>6,334,600</b>	<b>–</b>

#### Disclosed fair values

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

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

	30 June 2014 \$	30 June 2013 \$
Auditors' remuneration payable	18,915	27,000
Interest payable	3,632	941
Management fee payable	48,071	20,991
Unsettled trades payable	271,587	210,772
Performance fees payable	753,925	284,435
Dividend payable	27,024	–
Other payables	70,849	39,521
<b>Total</b>	<b>1,194,003</b>	<b>583,660</b>

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

## 10. ISSUED CAPITAL

The Company has maximum authorised number of shares of 50,000,000. Issued shares do not have a par value.

	30 June 2014		30 June 2013	
	No. of shares	\$	No. of shares	\$
Issued and paid up capital – Ordinary shares	35,226,053	33,992,409	17,313,439	15,700,572

Detailed provisions relating to the rights attaching to the Shares are set out in the Company's Constitution and the Corporations Act. The detailed provisions relating to the rights attaching to shares under the Constitution and the Corporations Act 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;
- (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 and the Listing Rules, Shares are fully transferable.

### Movements in Ordinary Share Capital

Date	Details	No. of shares	Issue price \$	\$
06 November 2012	Opening balance	–		–
	Ordinary shares issued	17,313,439	1.000	17,313,439
	Initial public offering fees net of deferred tax impact			(126,218)
	Share option reserve			(1,486,649)
30 June 2013	Closing balance	17,313,439		15,700,572

Date	Details	No. of shares	Issue price \$	\$
1 July 2013	Opening balance	17,313,439		15,700,572
September and October 2013	Share option exercise	133,200	1.000	133,200
October and November 2013	Dividend reinvestment	412,684	1.057	436,166
November 2013	Ordinary shares issued	1,200,000	1.130	1,356,000
January 2014	Ordinary shares issued	10,620,000	1.130	12,000,600
February and March 2014	Share option exercise	4,629,901	1.000	4,629,901
April and May 2014	Dividend reinvestment	912,829	1.034	943,504
May 2014	Share option exercise	4,000	1.000	4,000
	Share placement fees net of tax	–		(182,053)
	Share option reserve	–		(1,029,481)
30 June 2014	Closing balance	35,226,053		33,992,409

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 11. RESERVES

#### a) Retained Earnings

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Opening balance	1,107,808	–
Net profit attributable to members of the Company	4,854,854	1,107,808
Dividends paid	(1,379,670)	
Closing balance at 30 June 2014	4,582,992	1,107,808

#### b) Share Option Reserve

The terms and conditions of the options are as follows:

- The Company maintains a register of holders of options in accordance with Section 168(1) (b) of the Corporations Act.
- An option may be transferred or transmitted in any manner approved by the ASX.
- An option may be exercised by delivery to the Company of a duly completed Notice of Exercise of Options, signed by the registered holder of the option, together with payment to the Company of \$1.00 or \$1.13 per option depending on the option being exercised and the relevant option certificate.
- For the options with an exercise price of \$1.00, an option may be exercised on any business day from the date of grant to 1 February 2015, (inclusive) but not thereafter.
- For the options with an exercise price of \$1.13, an option may be exercised on any business day from the date of grant to 1 August 2015, (inclusive) but not thereafter.
- A Notice of Exercise of Options is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.
- Options do not carry any dividend entitlement until they are exercised. Shares issued on exercise of options rank equally with other issued shares of the Company 7 Business Days after their date of issue and are entitled to dividends paid on and from this date.

The movement in the share option reserve is detailed below:

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Opening balance	1,486,649	–
Options attached to ordinary shares issued during the year/period	1,438,817	1,486,649
Share option exercise	(409,336)	–
Closing balance at 30 June 2014	2,516,130	1,486,649

The movement in the number of share options is detailed below:

	Year ended 30 June 2014 No. of options	Period from 6 November 2012 to 30 June 2013 No. of options
Opening balance	17,313,439	–
Additions \$1.00 options expiring 1 February 2015	–	17,313,439
Additions \$1.13 options expiring 1 August 2015	11,820,000	–
Exercise of \$1.00 options expiring 1 February 2015	(4,767,100)	–
Closing balance	24,366,339	17,313,439

## 12. AUDITOR'S REMUNERATION

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

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Deloitte Touche Tohmatsu – audit of the financial report	31,185	27,000
Non-audit services	–	–
<b>Total audit fee expense</b>	<b>31,185</b>	<b>27,000</b>

## 13. CASH AND CASH EQUIVALENTS

### a) Components of Cash and Cash Equivalents

	30 June 2014 \$	30 June 2013 \$
Cash at banks	4,394,144	677,683
Bank overdraft	–	(559,264)
	<b>4,394,144</b>	<b>118,419</b>

### b) Reconciliation of Profit for the Year to Cash Provided by Operating Activities

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Profit for the year/period attributable to shareholders after tax	4,854,854	1,107,808
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	(5,523,262)	(998,425)
Income tax expense recognised in the Statement of Profit or Loss and Other Comprehensive Income	1,234,865	202,380
Change in assets and liabilities:		
Increase in trade and other receivables	(80,392)	(34,039)
Increase in trade and other payables	522,134	372,840
<b>Net cash provided by operating activities</b>	<b>1,008,199</b>	<b>650,564</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 14. 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 2014 was \$45,000 (2013: \$15,904).

There were no shares granted during the reporting period as compensation to the directors.

#### b) Related party shareholdings

##### *NAOS Asset Management Limited*

The Company has outsourced its investment management function to NAOS Asset Management Limited.

NAOS Asset Management Limited holds 511,827 shares (2013: 500,000 shares) in the Company.

##### *NAOS Long Short Equity Fund*

The Investment Manager for NAOS Long Short Equity Fund is NAOS Asset Management Limited. As at 30 June 2014, NAOS Long Short Equity Fund holds 612,113 Ordinary shares in the Company (2013: 500,000 Ordinary shares in conjunction with a 1 for 1 share option). All transactions with related parties have taken place at arm's length and in the ordinary course of business.

Other than the disclosure at Note 16 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*

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

	30 June 2014	30 June 2013
	Relevant interests (Shares)	Relevant interests (Shares)
Mr David Rickards (Chairman)	534,731	240,000
Mr Warwick Evans (Director)	1,565,774	1,489,950
Mr Sebastian Evans (Director)	749,455	290,859

#### c) Other Transactions within the Company

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

### 15. SEGMENT INFORMATION

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

### 16. RELATED PARTY INFORMATION

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

#### Holdings of Shares by the Directors of the Investment Manager

	30 June 2014	30 June 2013
Ordinary shares	No of shares	No of shares
David O'Halloran (Director)	4,155,476	3,355,476
Warwick Evans (Director) – key management personnel	1,565,774	1,489,950
Richard Granger (Director)	335,651	359,522
Sebastian Evans (Director) – key management personnel	749,455	290,859
Mark Bennett (Director)	157,633	150,000

## 16. RELATED PARTY INFORMATION (CONTINUED)

### 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 0.104% (excluding GST) of the gross value of the portfolio calculated on the first business day of each month representing an annualised management fee of 1.25% (excluding GST) per annum of the average gross value of the portfolio. At its discretion and subject to shareholder approval, the Investment Manager may elect to be paid in shares.

The following management fees were paid or payable to the Investment Manager during the year ended 30 June 2014:

- Management fees of \$401,601 (2013: \$80,435) (excluding RITC) were incurred during the year.
- Management fees payable at 30 June 2014 were \$48,071 (2013: \$20,991) (including RITC).

### Performance Fees

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

The following performance fees were paid or payable to the Investment Manager during the year ended 30 June 2014:

- Performance fees of \$702,521 (2013: \$265,041) (excluding RITC) were incurred during the year.
- Performance fees payable at 30 June 2014 were \$753,925 (2013: \$284,435) (including RITC).

## 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

### a) Credit Risk

Credit risk represents the risk that the Company will incur financial loss as a result of a failure by a counter party to discharge an obligation to a financial instrument. In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their contractual obligations.

This risk may be minimised by:

- ensuring counterparties, together with the respective credit limits are approved;
- ensuring that the transactions are undertaken with a large number of counterparties; and
- ensuring that the transactions are undertaken on recognised exchanges.

None of the assets exposed to 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) Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company may be exposed to foreign currency risk if its portfolio includes securities that are denominated in a foreign currency. Currency risk may be reduced by the use of cross-currency swap, foreign exchange forwards and spot contracts.

The Company was not exposed to direct currency risk during the year ended 30 June 2014 (2013: \$ nil).

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



## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

#### b) Market Risk (continued)

	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2014</b>			
<b>Assets</b>			
Cash and cash equivalents	4,394,144	–	4,394,144
Trade and other receivables	–	1,278,029	1,278,029
Financial assets at fair value through profit or loss	–	44,239,857	44,239,857
<b>Total Assets</b>	<b>4,394,144</b>	<b>45,517,886</b>	<b>49,912,030</b>
<b>Liabilities</b>			
Trade and other payables	–	1,194,003	1,194,003
Financial liabilities at fair value through profit or loss	–	6,334,600	6,334,600
<b>Total liabilities</b>	<b>–</b>	<b>7,528,603</b>	<b>7,528,603</b>
<b>Net exposure</b>	<b>4,394,144</b>	<b>37,989,283</b>	<b>42,383,427</b>

#### 30 June 2013

<b>Assets</b>			
Cash and cash equivalents	677,683	–	677,683
Trade and other receivables	–	960,061	960,061
Financial assets at fair value through profit or loss	–	17,942,659	17,942,659
<b>Total Assets</b>	<b>677,683</b>	<b>18,902,720</b>	<b>19,580,403</b>
<b>Liabilities</b>			
Bank overdraft	559,264	–	559,264
Trade and other payables	–	583,660	583,660
<b>Total liabilities</b>	<b>559,264</b>	<b>583,660</b>	<b>1,142,924</b>
<b>Net exposure</b>	<b>118,419</b>	<b>18,319,060</b>	<b>18,437,479</b>

The following table demonstrates the sensitivity of the Company's Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income to a reasonable change in interest rates, with all other variables constant. The 25 basis point sensitivity is based on the expected volatility of change in the AUD cash interest rate over the coming year:

	Change in basis points increase/(decrease)	Impact on operating profit/ Net assets attributable to shareholders (\$)
<b>30 June 2014</b>		
AUD interest rate	25bps/(25bps)	10,985/(10,985)
<b>30 June 2013</b>		
AUD interest rate	25bps/(25bps)	296/(296)

### iii) Price Risk

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

As at 30 June a 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 2014	(3,790,526)	3,790,526
30 June 2013	(1,794,266)	1,794,266

### iv) Other Price Risk

The Investment Manager seeks to manage and reduce the other price risk of the Company by diversification of the investment portfolio across numerous stocks and multiple industry sectors. The relative weightings of the individual securities and market sectors are reviewed daily and the risk managed on a daily basis.

The Company's industry sector weighting of the gross assets as at 30 June 2014 is as below:

Industry	% of Portfolio	
	30 June 2014	30 June 2013
Health Care Services	0%	12%
Consumer Discretionary	22%	15%
Food and Beverage	0%	11%
Telecommunication Services	29%	18%
Information Technology Services	0%	10%
Financial Services and Insurance	17%	28%
Bulk Commodities	5%	6%
Transport	12%	0%
Metals and Mining	2%	0%
Other	13%	0%
	100%	100%

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

#### c) Liquidity Risk

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

The Company's cash receipts depend upon the level of sales of securities, dividends and interest received.

The Investment Manager monitors the Company's cash-flow requirements daily by reference to known sales and purchases of securities, dividends and interest to be paid or received. Should these decrease by a material amount; the Company can alter its cash outflows as appropriate. The Company also holds a portion of its portfolio in cash sufficient to ensure that it has cash readily available to meet all payments. Furthermore the assets of the Company are largely in the form of tradeable securities which (if liquidity is available), can be sold on the market, if necessary.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from 30 June 2014 and 30 June 2013 to the contractual maturity date.

	30 June 2014			Total \$
	On demand \$	< 1 month	> 12 months \$	
Bank overdraft	–	–	–	–
Trade and other payables	–	1,194,003	–	1,194,003
Financial liabilities at fair value through profit or loss	–	6,334,600	–	6,334,600
<b>Total financial liabilities</b>	<b>–</b>	<b>7,528,603</b>	<b>–</b>	<b>7,528,603</b>

  

	30 June 2013			Total \$
	On demand \$	< 1 month	> 12 months \$	
Bank overdraft	559,264	–	–	559,264
Trade and other payables	–	583,660	–	583,660
<b>Total financial liabilities</b>	<b>559,264</b>	<b>583,660</b>	<b>–</b>	<b>1,142,924</b>

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

#### d) Fair Value Hierarchy

AASB 7 ("Financial Instruments Disclosures") requires entities to provide disclosures in their financial report that enable users to evaluate the significance of financial instruments for the entity, and the nature and extent of risks arising from financial instruments to which the entity is exposed to. Below is an analysis of the financial instruments of the Company.

##### Level 1:

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

##### Level 2:

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

##### Level 3:

Financial instruments that have been valued, in whole or in part, by using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

Unobservable valuation inputs are determined based on the best information available, which might include the entity's own data, reflecting its assumptions as well as best practices carried out or undertaken by other market participants. These valuation techniques are used to the extent that observable inputs are not available.

The following table shows an analysis of financial instruments held at 30 June 2014, recorded at fair value and presented by level of the fair value hierarchy:

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

	30 June 2014			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	43,009,857	–	–	43,009,857
Convertible note	–	–	1,230,000	1,230,000
<b>Total financial assets designated at fair value through profit or loss</b>	<b>43,009,857</b>	<b>–</b>	<b>1,230,000</b>	<b>44,239,857</b>

	30 June 2013			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	17,062,659	–	–	17,062,659
Convertible note	–	–	880,000	880,000
<b>Total financial assets designated at fair value through profit or loss</b>	<b>17,062,659</b>	<b>–</b>	<b>880,000</b>	<b>17,942,659</b>

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

	30 June 2014			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial liabilities</b>				
Listed equities – short sales	6,334,600	–	–	6,334,600
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>6,334,600</b>	<b>–</b>	<b>–</b>	<b>6,334,600</b>

There were no financial liabilities designated at fair value through profit or loss as at 30 June 2013.

There were no transfers between levels 1, 2 and 3 during the year. The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

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

*Valuation techniques used to derive level 1, level 2 and level 3 fair values*

##### *Level 1*

The fair value of financial instruments that are traded in an active market (for example, listed equities) is determined using the last traded quoted price in an active market. As at 30 June 2014 the Company had \$43,009,857 (2013: \$17,062,659) financial assets held at fair value through profit or loss included in level 1. As at 30 June 2014 the Company also had \$6,334,600 (2013: \$ nil) financial liabilities held at fair value through profit or loss included in level 1.

##### *Level 2*

The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 30 June 2014 the Company had \$ nil (2013: \$ nil) financial instruments in level 2.

##### *Level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 30 June 2014 the Company had \$1,230,000 (2013: \$880,000) financial assets held at fair value through profit or loss included in level 3.

In terms of the fair value hierarchy the convertible note is categorised as Level 3 given that it is not traded in an active market and is being measured using valuation techniques which include market data inputs that are not observable.

For the purposes of the Corporations Act and all other purposes, the Board of Directors resolved that the calculation of the fair value of the holding in the secured convertible note is as follows. The note receives a 12% interest payment, payable at the end of June (either in cash or by way of script at a 15% discount to the volume weighted average price of the shares) and also has the option to be converted into ordinary shares at any time at 50 cents per share, based on the value of the note, inclusive of any interest. For the purposes of producing a monthly NTA and the preparation of statutory financial reports, the Board of Directors resolved to calculate the value of the note based on the total value of the accrued interest and bid price on the last trading day of the shares. This is due to the illiquidity in the listed shares and a preference to price the note conservatively.

Differences may arise primarily due to short-term changes in the markets assessment of the credit risk of the underlying Company. The higher the value of underlying ordinary shares the higher would be the fair value of the convertible note.

##### *Reconciliation level 3 fair values*

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

	Year ended 30 June 2014 \$	Period from 6 November 2012 to 30 June 2013 \$
Opening balance	880,000	–
Purchase of investments	509,071	1,190,929
Unrealised losses on financial instruments held at fair value through profit or loss	(159,071)	(310,929)
Closing balance	1,230,000	880,000
Total losses for the year/period included in the Statement of Profit or Loss and Other Comprehensive Income at the end of the year/period	(470,000)	(310,929)

#### e) Capital Management

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings as disclosed in note 10 and 11 respectively. The Company is not subject to externally imposed capital requirements. The Company's objectives for managing capital are:

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

## 18. EARNINGS PER SHARE

	Year ended 30 June 2014 cents	Period from 6 November 2012 to 30 June 2013 cents
Basic earnings per share	19.16	6.40
Diluted earnings per share	18.54	6.40
	Units	Units
Weighted average number of ordinary shares used in the calculation of basic earnings per share	25,333,604	17,313,439
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	26,182,737	17,313,439
Weighted average number of fully paid ordinary shares	25,333,604	17,313,439
Potential ordinary shares – Options <sup>1</sup>	849,132	–
Total weighted average number of ordinary shares used in the calculation of diluted earnings per share	26,182,737	17,313,439
	\$	\$
Net profit used in the calculation of basic earnings per share	4,854,854	1,107,808
Net profit used in the calculation of diluted basic earnings per share	4,854,854	1,107,808

1 In the prior period, options were not considered to have a dilutive effect on the calculation of diluted earnings per share because the average market price of ordinary shares of the Company during the period ended 30 June 2013, did not exceed the exercise price of the options.

## 19. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies at 30 June 2014.

## 20. SUBSEQUENT EVENTS

On 11 August 2014, the Company announced a fully franked dividend 3 cents per share.

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

## DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- the financial statements and notes are in accordance with the Corporations Act 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the financial year ended 30 June 2014;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 (a) 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

25 September 2014



## ADDITIONAL INFORMATION

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

### **INVESTMENT PORTFOLIO**

As at 30 June 2014 the Company had the following investments:

#### **Investment**

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Affinity Education Group Limited Ordinary Shares  
APN News & Media Limited Ordinary Shares  
Attila Resource Limited Ordinary Shares  
Attila Resource Limited Convertible Notes  
Armidale Investment Corporation Limited  
Australia New Zealand Banking Limited Ordinary Shares  
Careers Multilist Limited Ordinary Shares  
Calliden Group Limited Ordinary Shares  
Enero Group Limited Ordinary Shares  
Lindsay Australia Limited Ordinary Shares  
Subzero Group Limited Ordinary Shares  
Tamawood Limited Ordinary Shares  
Transpacific SPS Trust Preference Shares

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During the financial year ended 30 June 2014, the Company had 795 transactions in investment securities.

Total brokerage fees incurred during the year ended 30 June 2014 were \$36,740.

## 20 LARGEST SHAREHOLDERS

Details of the 20 largest ordinary shareholders and their respective holdings as at 31 August 2014.

Shareholders	Ordinary shares held	% of issued shares
Myall Resources Pty Ltd <Myall Group Super Fund A/C>	2,577,395	7.299
HSBC Custody Nominees (Australia) Limited	1,839,588	5.210
Citicorp Nominees Pty Limited	1,830,714	5.184
RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	1,445,248	4.093
Nivesa Pty Ltd <Warwick Evans Super Fund Ac>	1,303,051	3.690
Myall Resources Pty Ltd <Myall Unit A/C>	1,218,559	3.451
Australian Executor Trustees Limited <No 1 Account>	682,000	1.931
LIC Investments Pty Ltd <Lic Investments Unit A/C>	530,000	1.501
Scottow Pty Ltd <Scottow Super Fund A/C>	513,303	1.454
NAOS Asset Management Limited	511,827	1.449
Equitas Nominees Pty Limited <Pb-600057 A/C>	507,894	1.438
Australian Executor Trustees Limited	481,169	1.363
IR and JB Investments Pty Ltd	467,988	1.325
A & J Purchase Pty Ltd	450,000	1.274
Patagorag Superannuation Pty Ltd <Roger Allen Super Fund A/C>	437,303	1.238
Raystall Pty Ltd <Stallworthy Super Fund A/C>	400,000	1.133
Burtoh Ventures Pty Ltd <Bur A/C>	359,522	1.018
Mr Robert Thomas & Mrs Kyrenia Thomas <Rob Thomas Super Fund A/C>	313,430	0.888
One Managed Investment Funds Limited Acf Sandon Capital Investments Limited Level 13	287,450	0.814
Invia Custodian Pty Limited <Kooronya Group S/F A/C>	278,436	0.789
<b>Total</b>	<b>16,434,877</b>	<b>46.542</b>

## SUBSTANTIAL SHAREHOLDERS

Shareholders	Ordinary shares held	% of issued shares
Myall Resources Pty Ltd <Myall Group Super Fund A/C>	2,577,395	7.299
HSBC Custody Nominees (Australia) Limited	1,839,588	5.210
Citicorp Nominees Pty Limited	1,830,714	5.184

## **ADDITIONAL INFORMATION**

Continued

### **DISTRIBUTION OF ORDINARY SHARES**

Analysis of ordinary shares by size of shareholders as at 31 August 2014.

Category	Number of shareholders	Ordinary shares held	% of issued shares
1-1,000	12	4,307	0.012
1,001-5,000	117	344,312	0.975
5,001-10,000	116	985,714	2.791
10,001-100,000	294	10,549,339	29.875
100,001 and over	63	23,428,355	66.347
<b>Total</b>	<b>602</b>	<b>35,312,027</b>	<b>100</b>

### **VOTING RIGHTS**

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

### **ASX LISTING**

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

### **BUY BACK**

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

### **MARKETABLE PARCELS**

As at 31 August 2014, the Company had 602 non-marketable parcels of securities.

### **UNQUOTED SECURITIES**

There are currently no unquoted securities on issue by the Company.

### **RESTRICTIONS ON SHARES**

There are currently no restrictions attached to the shares of the Company.

## **CORPORATE INFORMATION**

### **Directors**

David Rickards (*Independent Chairman*)

Warwick Evans (*Director*)

Sebastian Evans (*Director*)

### **Company Secretary**

Lawrence Adams

### **Registered Office**

Level 4, Domain House

139 Macquarie Street

Sydney NSW 2000

Telephone: (02) 8064 0568

Facsimile: (02) 8215 0037

### **Investment Manager**

NAOS Asset Management Limited

Level 4, Domain House

139 Macquarie Street

Sydney NSW 2000

(*Australian Financial Services*

*Licence Number: 273529*)

Telephone: (02) 8064 0568

Facsimile: (02) 8215 0037

### **Share Registry**

Boardroom Pty Limited

7/207 Kent Street

Sydney NSW 2000

Telephone: 1300 737 760

Facsimile: 1300 653 459

### **Auditor**

Deloitte Touche Tohmatsu

Level 25, Grosvenor Place

225 George Street

Sydney NSW 2000



