

## NAOS Emerging Opportunities Company Limited

ACN: 161 106 510

### Appendix 4E

#### Results Announcement for the year ended 30 June 2016

All comparisons unless specified are to the year ended 30 June 2015

	\$	up/down	% change
Revenue from ordinary activities	13,000,673	Up	1,454%
Profit from ordinary activities before tax attributable to members	11,237,685	Up	1,567%
Profit from ordinary activities after tax attributable to members	8,063,747	Up	8,572%
Dividend Information	Cents per share	Franked amount per share	Tax rate for franking
2016 Interim dividend	3.25	3.25	30%
2016 Final dividend	3.50	3.50	30%
<b>Final Dividend Dates</b>			
Ex-dividend date			19 October 2016
Record date			20 October 2016
Payment date			11 November 2016
<b>Dividend Reinvestment Plan</b>			
The Dividend Reinvestment Plan is in operation and the recommended fully franked final dividend of 3.5 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.			
	30 June 2016	30 June 2015	
	\$	\$	
(Post Tax) Net tangible asset backing	1.181	1.071	
This report is based on the financial report which has been subject to independent audit by the auditors, Deloitte Touche Tohmatsu Australia. All the documents comprise the information required by the Listing Rule 4.3A.			



NAOS

NAOS EMERGING OPPORTUNITIES  
COMPANY LIMITED

[Annual Report 2016](#)



The background is a solid blue color. There are several yellow geometric elements: a long diagonal line starting from the top center and extending towards the middle right; a yellow triangle pointing right, located to the right of the text; a yellow circle below the triangle; and another long diagonal line starting from the bottom right and extending towards the middle right.

Our objective is to  
provide investors with  
genuine exposure to  
emerging companies  
with a long-term value  
focus regardless of  
market capitalisation  
and/or liquidity

## FINANCIAL RECORD

Net Tangible Assets	30 June 2016	30 June 2015
Undiluted NTA per share (pre-tax)***	\$1.25	\$1.07
Undiluted NTA per share (post-tax)	\$1.18	\$1.07
Diluted NTA per share (pre-tax)*	\$1.25	\$1.07
Diluted NTA per share (post-tax)*	\$1.18	\$1.07
Share price	\$1.04	\$1.00
Option price (expiring 1 February 2015)	n/a	n/a
Option price (expiring 1 August 2015)**	n/a	\$0.004

### Dividend

Dividend Information	Cents per share	Franked amount per share	Tax rate for franking
2016 Interim dividend	3.25	3.25	30%
2016 Final dividend	3.50	3.50	30%

### Final Dividend Dates

Ex-dividend date	19 October 2016
Record date	20 October 2016
Payment date	11 November 2016

### Dividend Reinvestment Plan

The Dividend Reinvestment Plan is in operation and the recommended fully franked final dividend of 3.5 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.

\* 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.

\*\* On 1 August 2015, all unexercised options expired.

\*\*\* The Net Tangible Assets backing of the Company's shares is calculated, in accordance with ASX guidelines, by dividing the net tangible assets of the Company (net assets less tax assets and liabilities), at a particular date, by the number of shares on issue at that date.

### Portfolio Performance as at 30 June 2016

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance	+2.97%	+17.07%	+24.77%	+12.49%	+18.51%	+20.07%	+84.22%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-1.31%	+6.94%	+14.40%	+7.19%	+9.13%	+2.33%	+8.00%
<b>Outperformance Relative to Benchmark</b>	<b>+4.28%</b>	<b>+10.13%</b>	<b>+10.37%</b>	<b>+5.30%</b>	<b>+9.38%</b>	<b>+17.74%</b>	<b>+76.22%</b>

Past performance is not an indicator of future returns. Performance shown is post all operating expenses but before fees and taxes.

## CORPORATE SUMMARY

### 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 genuine exposure to emerging companies with a long-term value focus regardless of market capitalisation and/or liquidity, aiming to provide a growing income stream 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 (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.

### RISK

The Company invests in securities 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 services, details of which are contained at Note 16.

Total Assets and Net Tangible Assets ("NTA")	30 June 2016 \$	30 June 2015 \$
Total assets	60,322,421	54,707,585
Undiluted NTA per share (pre-tax)	1.25	1.07
Undiluted NTA per share (post-tax)	1.18	1.07
Diluted NTA per share (pre-tax)	1.25	1.07
Diluted NTA per share (post-tax)	1.18	1.07
Total shares on issue	46,918,297	46,918,297

### INFORMATION ABOUT THE INVESTMENT MANAGER

The Investment Manager of the Company is NAOS Asset Management Limited (NAOS).

NAOS was established in 2005 and focuses on providing investors with niche product offerings, in asset classes and sub-sectors where they often lack the time, resources or expertise to research and invest in the products themselves.

NAOS adopts a high conviction, long-term, value driven, long/short approach to investing. The investment team look to realise value over the medium to long term by sourcing, selecting and combining investment opportunities that present the

greatest opportunity for shareholders to realise positive absolute returns in the form of capital growth and income generation over the long term.

All NAOS investment products have an absolute return focus. As such, in implementing the strategy for the Company, the team place a primary focus on mitigating the risk of permanent loss of capital and assessing each investment opportunity on the basis of its potential for long-term value add in the portfolio. Given the approach adopted, it is unlikely that the performance of the Company's investment portfolio will present a high correlation to broader investment market movements.

NAOS believe there should always be a significant alignment of interests between the managers of investments and shareholders. As such, in undertaking the implementation of the investment strategy for the Company, the investment team seek only to invest in businesses that are led by proven management teams with a clear alignment of interests to that of shareholders. Furthermore, NAOS Directors and employees are significant investors in the vehicles they manage. Further information about NAOS can be found at [www.naos.com.au](http://www.naos.com.au).





### **SEBASTIAN EVANS**

#### **Director**

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

Sebastian Evans is a Director of NAOS Absolute Opportunities Company Limited and the major shareholder and Managing Director of the Investment Manager. He is also the Chief Investment Officer for both the NAOS Emerging Opportunities Company and the NAOS Absolute Opportunities Company. Prior to this he was an Investment Analyst at the Investment Manager, focusing on emerging companies.

Sebastian holds a Masters of Applied Finance majoring in Investment Management, a Bachelor's Degree in Commerce, majoring in Finance and International Business, and a Graduate Diploma in Management from the Australian Graduate School of Management (AGSM). He also holds a Diploma in Financial Services and is RG146 Competent.

### **WARWICK EVANS**

#### **Director**

Warwick Evans has been a Director of the Company since inception (6 November 2012). 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 is a Director of NAOS Absolute Opportunities Company Limited. He was also the founding Chairman and 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 a former Director and Treasurer at Bush Heritage Australia, a Director of NAOS Absolute Opportunities Company Limited 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).

Dear fellow Shareholders,

Welcome to the 2016 Annual Report for the NAOS Emerging Opportunities Company Limited.

For the financial year ended 30 June 2016, the Company recorded a record profit of \$8.06 million, representing a significant increase on the prior period. The pre-tax NTA increased by 23.25c including the 6.25c of fully franked dividends paid over the same period.



The strategy of offering a completely benchmark unaware strategy whilst providing concentrated exposure to emerging companies has continued to provide excellent risk adjusted returns to shareholders, well above that of the wider market. The Company continues to provide current and future shareholders a Listed Investment Company that is true to its investment philosophy of investing in emerging companies over a long term investment horizon of between three and five years, whilst maintaining the ability to hold a significant cash position of up to 100% in times where excellent risk adjusted returns are not able to be sourced by the Investment Manager.

In its fourth year of operations the Company continues to grow from the perspective of both net assets and the number of shareholders. The number of shareholders that held equity in the Company increased by 4% in FY16, and notably this was without the assistance of any form of capital raisings, including the issue of new shares through a Dividend Reinvestment Plan. The net assets of the business continue to increase with a post-tax net asset value of \$55.40 million at the end of financial year 2016.

Dividends paid by the Company have now grown for four consecutive years since listing in February 2013. For the financial year 2016 the Company will pay a fully franked dividend of \$0.0675 to shareholders. This represents an increase of +3.85% over the previous year. The paramount focus of the Directors continues to be the ability to provide

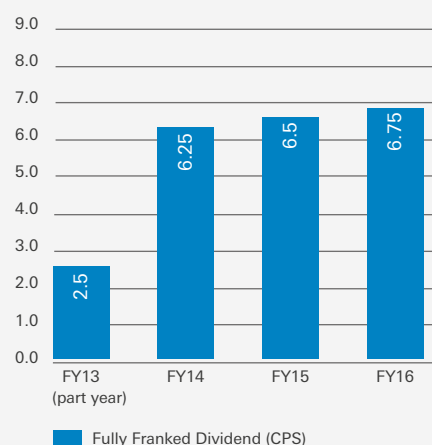
shareholders with a growing, predictable stream of dividends, franked to the maximum extent deemed appropriate by the Board of Directors.

The Company continues to place significant emphasis on providing quality and value add communications to our shareholder base. The Directors believe the monthly investment reports and quarterly question and answer session with the NAOS Chief Investment Officer are some of the most useful and transparent within the Listed Investment Company space. To further improve our shareholder communications, we will be holding investor briefings in five of the capital cities on a bi-annual basis. The Directors believe these briefings will allow both prospective and current shareholders the ability to meet with both the Board of Directors and the wider team at the Investment Manager, and allow them to have answered any questions they may have in regards to the Company and its operations.

As stated in previous years, the Board remains committed to managing the capital base of the Company in a manner that provides the flexibility the Investment Manager requires to maximise potential shareholder returns over the long term. The Board continues in its commitment to limit the size of the Company to \$150 million unless organic growth increases the asset value over this amount.

Importantly, all Directors of the Company were net acquirers of shares over the financial year, and the Directors hold a cumulative 3.44 million shares, further

Fully Franked Dividend (CPS)



aligning our interests with those of all shareholders of the Company.

On behalf of the Board of Directors, I would like to thank all staff of the Investment Manager for their hard work over the financial year.

The Board is grateful for all shareholder support through the year and we welcome all new shareholders who joined the Company in the 2016 financial year.

David Rickards  
Chairman  
25 August 2016





Dear Fellow Shareholders,

It is with great pleasure that I report to you after completion of the fourth year of operations for the NAOS Emerging Opportunities Company Limited ('NCC'). The investment portfolio returned +24.77% for the year, which compared favourably to the Benchmark Small Ordinaries Accumulation Index (XSOAI) which returned +15.23%. This brings the performance of the investment portfolio to 84.22% since the Company's inception in February 2013.

"Pleasingly, almost all of the nine investments held at the beginning of the financial year produced positive absolute returns"

Pleasingly, almost all of the nine investments held at the beginning of the financial year produced positive absolute returns, and all of these investments remained in the portfolio at the end of Financial Year 2016. More importantly, the worst detractor to the portfolio returned just -1.25%.

The major contributors to the portfolio performance through the financial year were Enero Group (ASX: EGG), BSA Limited (ASX: BSA) and Armidale Investments (ASX: AIK). Below is a short summary of the progress these three companies have made in FY2016 that has resulted in this subsequent share price appreciation, looking first at Enero Group, which operates advertising and PR agencies in Australia, Western Europe and the USA.

As with many NCC investments Enero has reputable brands, a solid balance sheet and an excellent management team. EGG has been working towards increased profitability through margin expansion to bring it in line with levels achieved by many of its local and global peers, i.e. 14-17% at the EBITDA level. Pleasingly EGG was able to achieve an EBITDA margin of 11.64%, a significant improvement on the sub <6% result just two years ago. A degree of this improvement can be attributed to the revenue base which not only stabilised but grew 3% year on year. A number of the Enero subsidiaries won and completed work for a

number of well-known brands, such as ALDI, the Australian Federal Government, and also worked with Ebay in Europe on its social media strategy. Moving forward it will be key for EGG to manage the mix of potential acquisitions to help expand existing brands as well as continue to move the margin of the current businesses higher. If both of these are successfully completed, EGG could increase its earnings base significantly over the next 24 months.

In 2016, BSA Group continued to build on the success achieved in FY2015. Over this financial year BSA moved from a turnaround and recapitalisation project, to a business that has gained further market share within the telecommunication sector, specifically through the National Broadband Network (NBN), which has given the company an excellent base to significantly grow its current revenue base over the next 2-3 years. Due to the more technical nature of the telecommunications work recently won by BSA, we believe this will be higher margin than some of the work BSA was previously completing. The key for BSA has always been for it to lift its EBITDA margins as close to 5% as possible on the >\$500 million revenue base achieved in FY16. When looking at comparable companies such as Service Stream (SSM) EBITDA margins of >7% have been achieved, so we are confident this can be achieved.

Finally, Armidale Investment Group (ASX: AIK) made a significant amount of progress over the year. Firstly, the small to medium business leasing unit called HAL finally secured a tier-1 bank funding arrangement after a number of years of persistence. This funding agreement will allow HAL to compete on larger financing opportunities that are often at lower rates than deals of <\$100,000 in value. Secondly AIK completed the acquisition of Platform Finance Group (PFG), a finance broker that mainly deals with the financing of automobiles with a small amount of equipment financing. This acquisition provides AIK the platform to focus on two strategic objectives, namely scalability in the finance broking, and control over originators. Firstly the equipment financing industry completes over \$32 billion of financing every year. Yet unlike the mortgage broking and insurance broking industries, equipment financing is yet to go through the process of disintermediation. This acquisition gives AIK the platform to consolidate the finance broking space and achieve the numerous benefits that come with scale. Secondly, the main factors that affect the growth of a leasing business are funding and origination. With the acquisition of PFG and potentially further broking businesses in FY17, AIK will have control over the originators that feed business to HAL, which will thus allow the leasing book to grow significantly over time.

## CURRENT PORTFOLIO POSITIONING

It is the core of the NAOS philosophy to focus on the "controllable". What we mean by this, is that a NAOS investment should have characteristics that allow for a substantial share price re-rating to occur over the long term but with less company specific risk than most investment opportunities. Such variables include an existing revenue base, earnings growth through revenue and/or margin improvement, balance sheet flexibility, excellent management credibility and finally companies that are valued on today's flat earnings profile and not the growing earnings base that may eventuate in 3-5 years' time. Posting what we believed was a good result in FY2015, we asked our shareholder base to be patient with the NCC portfolio at that time. All of these companies are still in the portfolio today, many with significantly higher share prices. Ultimately these share prices have re-rated because management teams have executed and thus profitability has grown. Just because share prices have increased does not necessarily mean it's time to sell. Many of the best performing stocks continue to be consistent performers for quite a few years, such examples include CSL, TPM, ALU, VOC, MNF, SRX and MFG. Being extremely mindful of company specific valuations and company specific risks, I believe that a majority of our current holdings still represent excellent risk adjusted return opportunities over a 12-36-month period. Sometimes it is your winners that you continue to hold that often represent your best investment decisions.

The portfolio at the end of the financial year was 98.5% invested across 10 different holdings. The top-5 positions, being BSA, AIK, EGG, My Net Fone (ASX: MNF) and Lindsay Australia (ASX: LAU) represented greater than 65% of the total portfolio, with the other five positions making up the balance. The portfolio had 1.5% in cash and no active short positions.

The current portfolio positioning reflects our belief that our core holdings remained undervalued. Much of a company's re-valuation does not come from earnings growth but from the earnings multiple that investors are willing to pay for a company's earnings.

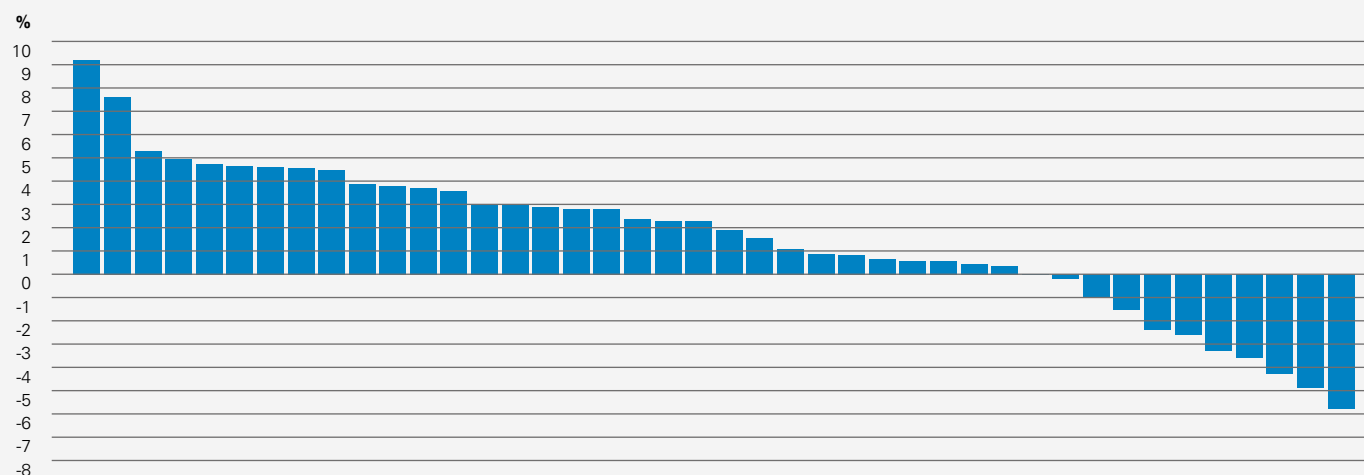
As always, the NAOS investment team is looking to find potential new investments that will form the foundation of our portfolio in future years. Predictably, given the current valuation backdrop new investment ideas are potentially harder to come by than at any time over the last 10 years. In saying this, the team believes we are close to initiating on 2-3 new positions in the coming months and we look forward to sharing the details with you later in the new financial year.

On behalf of all the NAOS team, I would like to thank shareholders for their continued support.



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

## SUMMARY OF MONTHLY PORTFOLIO RETURNS



## OUR TEAM



### **SEBASTIAN EVANS**

#### **Chief Investment Officer**

See bio on page 4.



### **BEN RUNDLE**

#### **Portfolio Manager**

Ben joined NAOS in January 2015 as a Portfolio Manager. Ben has over 8 years' experience in financial markets and prior to joining NAOS he held various roles within the Financial Services Industry including roles at Macquarie Bank and most recently with Moelis and Company. Ben holds a Bachelor of Commerce, majoring in Accounting from the University of South Australia.



### **JEFFREY KIM**

#### **Portfolio Manager**

Jeffrey joined NAOS in August 2009 as an Investment Analyst and is now a Portfolio Manager. Prior to joining the Firm, Jeffrey completed his double degree in Applied Finance and Accounting from Macquarie University.



### **ROBERT MILLER**

#### **Portfolio Manager**

Robert Miller has been with NAOS since September 2009 working with the investment team as an Investment Analyst and now Portfolio Manager. Robert has completed his Bachelor's Degree in Business from the University of Technology Sydney, as well as completing his Masters of Applied Finance from the Financial Services Institute of Australasia.



### **RICHARD PREEDY**

#### **Chief Financial and Operating Officer**

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 10 years financial services experience in the UK and Australia, beginning his career in London with Deloitte & Touche before relocating to Sydney in 2013. Richard holds a BA (Hons) in Business Management from the University of Sheffield, and is a fully qualified Chartered Accountant.



### **JULIA STANISTREET**

#### **Business Development Manager**

Julia joined NAOS in September 2015. Prior to this, Julia held various Client Relationship roles within the Financial Services Industry in Australia and the UK including roles at Macquarie Bank and Deutsche Bank. Julia holds a Bachelor of Business degree majoring in Accounting from UTS and she also holds a Graduate Diploma in Applied Finance from KAPLAN.



### **JULIE COVENTRY**

#### **Compliance Officer**

Julie joined NAOS in November 2012 as Compliance Officer. Prior to joining NAOS, Julie worked within the Compliance and Performance teams at BZW Investment Management, Commonwealth Bank, Colonial First State and QBE. Julie holds a Bachelor of Business degree, majoring in Finance and Economics, from the University of Technology, Sydney and she also holds a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.



### **CHADD KNIGHTS**

#### **Associate Analyst**

Chadd joined NAOS in June 2015 as an Investment Analyst. Chadd completed his double degree in Applied Finance and Economics from Macquarie University and is a candidate in the Chartered Financial Analyst (CFA) Program.

### CORPORATE GOVERNANCE

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

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





## 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 2016.

### COMPANY INFORMATION

#### Directors and Officers

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

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

Further details regarding the Directors' qualifications and experience are set out on page 4 of the annual report.

### MEETINGS OF DIRECTORS

The following table shows the number of Board meetings held during the financial year ended 30 June 2016 and the year ended 30 June 2015.

	Year ended 30 June 2016		Year ended 30 June 2015	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr David Rickards (Chairman)	11	11	10	10
Mr Warwick Evans (Director)	11	11	10	9
Mr Sebastian Evans (Director)	11	11	10	10

### INTERESTS 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 2016 Relevant interests (Shares)	30 June 2015 Relevant interests (Shares)
Mr David Rickards (Chairman)	613,415	578,782
Mr Warwick Evans (Director)	1,910,061	1,794,697
Mr Sebastian Evans (Director)	916,590	836,800

### INTERESTS IN OPTIONS OF THE COMPANY

As at 30 June 2016, the Company does not have existing options. As at 30 June 2015, the Directors of the Company did not hold any options in the Company.

### OTHER DIRECTORSHIPS

All the Directors are currently Directors of NAOS Absolute Opportunities Company Limited.

Sebastian Evans and Warwick Evans are currently Directors of NAOS Asset Management Limited.

## DIRECTORS' REPORT

Continued

### PRINCIPAL ACTIVITIES

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

### REVIEW OF OPERATIONS

#### Results

Please refer to the Investment Manager's Review 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 2016 and 30 June 2015 were as follows:

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Profit/(loss) before income tax	11,237,685	(766,149)
Income tax (expense)/benefit	(3,173,938)	859,133
Profit for the year	8,063,747	92,984
Profit for the year attributable to members	8,063,747	92,984

#### Dividends Paid or Payable

Year ended 30 June 2016	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2015 final dividend (declared 20 October 2015)	3.00	1,407,549	100%	12 November 2015
2016 interim dividend (declared 6 April 2016)	3.25	1,524,845	100%	29 April 2016
		2,932,394		

Year ended 30 June 2015	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2014 final dividend (declared 20 November 2014)	3.00	1,098,271	100%	3 December 2014
2015 interim dividend (declared 25 February 2015)	3.25	1,524,845	100%	31 March 2015
		2,623,116		

For dividends declared post year end please refer to Note 20.

#### Net Assets

As at 30 June 2016 and 30 June 2015, the net assets of the Company were:

	30 June 2016 \$	30 June 2015 \$
Net assets at fair value	55,400,469	50,269,116
Undiluted NTA per share (pre-tax)	1.25	1.07
Undiluted NTA per share (post-tax)	1.18	1.07
Diluted NTA per share (pre-tax)	1.25	1.07*
Diluted NTA per share (post-tax)	1.18	1.07*
Total shares on issue	46,918,297	46,918,297

\* 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

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

## Subsequent Events

On 25 August 2016, the Company declared a fully franked dividend of 3.5 cents per share.

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

## Likely Developments

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

## Environmental Regulation and Performance

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

## Indemnification of Directors, Officers and Auditors

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

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

## 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 (6 November 2012) and up to the date of this report are:

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

## DIRECTORS' REPORT

Continued

### REMUNERATION REPORT (CONTINUED)

#### 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 Directors are entitled to.

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

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

Director's remuneration received for the year ended 30 June 2016 and the year ended 30 June 2015 is disclosed below:

	Short-term employee benefits Director's fees \$	Post- employment benefit Superann- uation \$	Total \$
<b>30 June 2016</b>			
Mr David Rickards (Chairman)	31,963	3,037	35,000
Mr Warwick Evans (Director)	9,132	868	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,095</b>	<b>3,905</b>	<b>45,000</b>
<b>30 June 2015</b>			
Mr David Rickards (Chairman)	31,963	3,037	35,000
Mr Warwick Evans (Director)	9,132	868	10,000
Mr Sebastian Evans (Director)	–	–	–
	<b>41,095</b>	<b>3,905</b>	<b>45,000</b>

1 Fully franked at 30% corporate income tax rate.

2 Fully franked declared after the end of the reporting year.

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

During the financial year ended 30 June 2016 and the year ended 30 June 2015, the relevant interests of the Directors and their related parties in the shares of the Company were:

Ordinary shares Year ended 30 June 2016	Opening balance No. of shares	Acquired No. of shares	Sold No. of shares	Closing balance No. of shares
Mr David Rickards (Chairman)	578,782	34,633	–	613,415
Mr Warwick Evans (Director)	1,794,697	115,364	–	1,910,061
Mr Sebastian Evans (Director)	836,800	79,790	–	916,590

Ordinary shares Year ended 30 June 2015	Opening balance No. of shares	Acquired No. of shares	Sold No. of shares	Closing balance No. of shares
Mr David Rickards (Chairman)	534,731	44,051	–	578,782
Mr Warwick Evans (Director)	1,565,774	1,692,084	(1,463,161)	1,794,697
Mr Sebastian Evans (Director)	749,455	265,845	(178,500)	836,800

#### 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 Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument 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 16. 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 August 2016





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

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1217 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

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

25 August 2016

Dear Directors,

**NAOS Emerging Opportunities Company Limited**

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

As lead audit partner for the audit of the financial statements of NAOS Emerging Opportunities Company Limited for the financial year ended 30 June 2016, 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 cursive script that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in cursive script that reads "Declan O'Callaghan".

Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 25 August 2016

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



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

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1217 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9322 7001  
www.deloitte.com.au

## **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 2016, 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 2016, 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 41.

#### *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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

1

## Deloitte.

### *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:

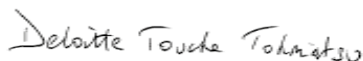
- (a) the financial report of NAOS Emerging Opportunities Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended 30 June 2016; and
  - (ii) complying 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 15 of the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 25 August 2016

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
<b>Income</b>	3	13,000,673	836,841
<b>Expenses</b>			
Interest expense		(22,955)	(34,683)
Dividend expense on short sales		–	(118,360)
Management fees	16	(675,811)	(614,385)
Performance fees	16	(493,778)	–
Administration fees		(62,861)	(64,229)
Directors' remuneration		(45,000)	(45,000)
Australian stock exchange fees		(15,359)	(23,470)
Auditor's remuneration		(39,464)	(33,495)
Custody fees		(60,000)	(56,591)
Insurance fees		(39,132)	(40,632)
Registry fees		(36,406)	(36,258)
Broker fees		(62,907)	(208,505)
Other expenses	4	(209,315)	(327,382)
<b>Profit/(Loss) before income tax expense</b>		<b>11,237,685</b>	<b>(766,149)</b>
Income tax (expense)/benefit	5	(3,173,938)	859,133
<b>Profit for the year attributable to shareholders of the Company</b>		<b>8,063,747</b>	<b>92,984</b>
Other comprehensive income		–	–
<b>Total comprehensive income for the year attributable to shareholders of the Company</b>		<b>8,063,747</b>	<b>92,984</b>
<b>Basic earnings per share</b>	18	<b>17.19</b>	<b>0.23</b>
<b>Diluted earnings per share</b>	18	<b>17.19</b>	<b>0.23</b>

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

	Note	30 June 2016 \$	30 June 2015 \$
<b>Assets</b>			
Cash and cash equivalents	13	–	2,723,813
Trade and other receivables	7	2,155,710	1,914,719
Financial assets at fair value through profit or loss	8	57,565,714	49,972,357
Deferred tax assets	5 (c), 5 (d)	600,997	96,696
<b>Total assets</b>		<b>60,322,421</b>	<b>54,707,585</b>
<b>Liabilities</b>			
Bank overdraft	13	490,255	–
Trade and other payables	9	753,928	4,424,449
Provision for income tax		–	14,020
Deferred tax liabilities	5 (c), 5 (d)	3,677,769	–
<b>Total liabilities</b>		<b>4,921,952</b>	<b>4,438,469</b>
<b>Net assets</b>		<b>55,400,469</b>	<b>50,269,116</b>
<b>Equity</b>			
Issued capital – Ordinary shares	10	46,678,301	46,678,301
Share option reserve	11 (b)	–	1,434,545
Retained earnings	11 (a)	–	2,156,270
Profit Reserve	11 (c)	8,722,168	–
<b>Total equity</b>		<b>55,400,469</b>	<b>50,269,116</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 2016**

	Issued capital \$	Share option reserve \$	Retained earnings \$	Profits reserve \$	Total \$
Balance at 1 July 2014	33,992,409	2,516,130	4,582,992	–	41,091,531
Profit for the year	–	–	92,984	–	92,984
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	33,992,409	2,516,130	4,675,976	–	41,184,515
Dividends paid	–	–	(2,623,116)	–	(2,623,116)
Dividend reinvestment	330,690	–	–	–	330,690
Share option exercised	11,377,027	–	–	–	11,377,027
Share option expired	–	(103,410)	103,410	–	–
Transfer from share option reserve	978,175	(978,175)	–	–	–
Balance at 30 June 2015	46,678,301	1,434,545	2,156,270	–	50,269,116
Balance at 1 July 2015	46,678,301	1,434,545	2,156,270	–	50,269,116
Profit for the year	–	–	8,063,747	–	8,063,747
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	46,678,301	1,434,545	10,220,017	–	58,332,863
Transfer to profits reserve	–	–	(11,654,562)	11,654,562	–
Dividends declared	–	–	–	(2,932,394)	(2,932,394)
Dividend reinvestment on market shares	582,133	–	–	–	582,133
Purchase of shares on market for DRP	(582,133)	–	–	–	(582,133)
Transfer from share option reserve	–	(1,434,545)	1,434,545	–	–
Balance at 30 June 2016	46,678,301	–	–	8,722,168	55,400,469

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 2016**

	Note	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
<b>Cash flows from operating activities</b>			
Dividends received		725,531	2,168,656
Dividend expenses paid on short sales		–	(118,360)
Interest received		27,398	213,001
Interest paid		(23,291)	(36,768)
Management and performance fees paid		(633,705)	(1,357,281)
Directors' remuneration paid		(45,000)	(45,000)
Income tax paid		(169,005)	(515,440)
Admin and tax service fee paid		(76,484)	(68,730)
Broker fee paid		(86,927)	(190,764)
Consulting fee paid		(31,669)	(82,245)
Custody fee paid		(60,000)	(56,591)
Insurance expense paid		(39,132)	(40,632)
Audit fee paid		(34,811)	(33,495)
Registry fee paid		(36,406)	(36,258)
Marketing expense paid		(56,581)	(38,785)
Professional fee paid		(80,097)	(51,755)
Australian Stock Exchange fee paid		(15,830)	(19,964)
Other payments		(82,084)	(159,114)
Other receipts		17,515	61,940
<b>Net cash (used in) operating activities</b>	13 (b)	(700,578)	(407,585)
<b>Cash flows from investing activities</b>			
Payments from purchase of investments		(61,153,827)	(117,002,337)
Proceeds from sale of investments		61,542,652	106,658,758
<b>Net cash provided by/(used in) investing activities</b>		388,825	(10,343,579)
<b>Cash flows from financing activities</b>			
Payments for purchase of shares on market for DRP		(582,133)	–
Dividends paid		(2,320,182)	(2,296,194)
Receipts from options exercised		–	11,377,027
<b>Net cash (used in)/provided by financing activities</b>		(2,902,315)	9,080,833
<b>Net (decrease) in cash and cash equivalents</b>		(3,214,068)	(1,670,331)
Cash and cash equivalents at the beginning of the year		2,723,813	4,394,144
<b>(Bank overdraft)/Cash and cash equivalents at the end of the year</b>	13 (a)	<b>(490,255)</b>	<b>2,723,813</b>
<b>Non-cash activities – Dividend reinvestment</b>		<b>582,133</b>	<b>330,690</b>

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

## GENERAL INFORMATION

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

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

NAOS Asset Management Limited is the investment manager for the Company. The financial statements were authorised for issue by the Directors on 25 August 2016.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of Preparation

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

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

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

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on the historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the

judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Refer to note 1 (g) Investments in Financial Instruments in relation to measurement techniques used to fair value the convertible note as at the reporting date.

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 are calculated as the difference between the fair value at the period end and the fair value at the previous valuation point. Net gains/(losses) 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 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. Additionally it is required to pay any dividend forgone by stock lenders in respect of borrowed securities. These are included in the Statement of Profit or Loss and Other Comprehensive Income as dividend expense on short sales.

#### (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.

## 1. Summary of Significant Accounting Policies (continued)

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.

The fair value of the holding in the secured convertible note is as follows. No interest is accrued on the note; however the note receives a redemption premium of 15% per annum on the amount owing under each note. A note has the option of being converted into ordinary shares prior to maturity at 20 cents per share, based on the value of the note, inclusive of any redemption premium. As such, the value of the note is calculated based

on the total value of the capitalized interest redemption premium (15%) and applying a 20% discount to the bid price (19.5 cents) 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 owed 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.

### **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, was transferred to retained earnings.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The assumptions and methods used in the determination of the value of investments, specifically convertible note, are outlined in Note 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 not materially affected the amounts reported in these financial statements.

#### ***AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'***

This standard amends a number of pronouncements as a result of the IASB's 2012-2014 annual improvements cycle. Key amendments include:

- AASB 5 – Change in methods of disposal;
- AASB 7 – Servicing contracts and applicability of the amendments to AASB 7 to condensed interim financial statements;
- AASB 119 – Discount rate: regional market issue; and
- AASB 134 – Disclosure of information 'elsewhere in the interim financial report'.

#### ***AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Amends AASB 101'***

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



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period and have not been early adopted by the Company.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016 'Leases'	1 January 2019	30 June 2020
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 2015 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	30 June 2018
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018

The potential effect of these standards on the Company's financial statements has not yet been determined.

### 3. INCOME

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Gains/(losses) on financial instruments held at fair value through profit or loss	12,158,027	(1,543,060)
Interest income	22,972	211,245
Dividend income	819,531	2,168,656
Other income	143	–
	<b>13,000,673</b>	<b>836,841</b>

### 4. OTHER EXPENSES

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Annual general meeting fees	(2,718)	(2,750)
Consultancy fees	(31,669)	(82,245)
General fund expense	–	(13,687)
Marketing expense	(56,581)	(38,785)
Other fees	(27,092)	(127,160)
Professional fees	(85,740)	(51,755)
Research fee expense	–	(5,500)
Tax fees	(5,515)	(5,500)
<b>Total other expenses</b>	<b>(209,315)</b>	<b>(327,382)</b>

## 5. INCOME TAX

### a) Income Tax Expense

The aggregate amount tax (benefit)/expense attributable to the year differs from the amount calculated on the profit for the year.

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
<b>Differences are reconciled as follows:</b>		
Profit/(loss) for the year before income tax (benefit)/expense	11,237,685	(766,149)
Prima facie income tax (benefit)/expense calculated at 30%	3,371,306	(229,845)
<b>Adjustment to income tax due to:</b>		
Tax offset for franked dividend received	(197,368)	(629,288)
<b>Income tax expense/(benefit)</b>	<b>3,173,938</b>	<b>(859,133)</b>

### b) Income Tax Expense Recognised in the Statement of Profit or Loss and Other Comprehensive Income

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Deferred income (benefit)/tax relating to origination and reversal of temporary differences	3,271,522	(1,089,673)
Current year tax (benefit)/expense	(97,584)	230,540
<b>Income tax expense/(benefit)</b>	<b>3,173,938</b>	<b>(859,133)</b>

### c) 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 2016 \$	Year ended 30 June 2015 \$
Deferred tax asset on tax loss including franking credit	380,209	–
Deferred tax asset on initial public offering commission	11,953	23,972
Deferred tax asset on placement fees	34,162	51,252
Other temporary differences in relation to future deductible liabilities	174,673	18,569
	<b>600,997</b>	<b>93,793</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 5. INCOME TAX (CONTINUED)

#### d) Deferred Tax Liability

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Deferred income tax liability on unrealised gains on fair value of investments	3,516,231	(1,349,137)
Other temporary differences	161,538	1,346,234
	<b>3,677,769</b>	<b>(2,903)*</b>

\* As at 30 June 2015, the deferred tax liability of (\$2,903), is included within the deferred tax asset amount on the Statement of Financial Position.

#### e) Income Tax Recognised in Equity

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Deferred tax		
Placement fees	46,115	75,224
Total income tax recognised directly in equity	<b>46,115</b>	<b>75,224</b>

### 6. DIVIDEND PAID OR PAYABLE

	Dividend rate (cents per share)	Total amount	% Franked	Date of payment
2015 final dividend (declared 20 October 2015)	3.00	1,407,549	100%	12 November 2015
2016 interim dividend (declared 6 April 2016)	3.25	1,524,845	100%	29 April 2016
		<b>2,932,394</b>		
Year ended 30 June 2015				
2014 final dividend (declared 20 November 2014)	3.00	1,098,271	100%	3 December 2014
2015 interim dividend (declared 25 February 2015)	3.25	1,524,845	100%	31 March 2015
		<b>2,623,116</b>		

Dividends payable at 30 June 2016 were \$53,335 (2015: \$23,256).

#### Dividend Franking Information

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Franking credits available for shareholders from previous financial periods	817,980	527,751
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	40,286	–
Impact on the franking account of dividends paid during the year	(1,256,741)	(1,124,193)
Impact on the franking account of dividends received during the year	282,624	898,983
Impact on the franking account of income tax paid/payable	169,005	515,439
Adjusted franking account balance	<b>53,154</b>	<b>817,980</b>

\* This calculation is based on the number of shares on issue as at 30 June.

## 7. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	30 June 2016 \$	30 June 2015 \$
GST receivable	62,635	28,343
Interest receivable	430	4,856
Other receivables	11,996	21,056
Income tax paid in advance	154,515	–
Receivable from investments sold	1,799,937	1,819,955
Dividends receivable	94,000	–
Prepaid expenses	32,197	40,509
	<b>2,155,710</b>	<b>1,914,719</b>

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.

## 8. INVESTMENTS IN FINANCIAL INSTRUMENTS

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

	30 June 2016 \$	30 June 2015 \$
Investment in ordinary shares	56,113,895	49,402,357
Investment in unlisted convertible notes	1,451,819	570,000
Total financial assets at fair value through profit or loss	<b>57,565,714</b>	<b>49,972,357</b>

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

There were no financial liabilities at fair value through profit or loss as at 30 June 2016 (2015: \$nil).

### 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 2016 \$	30 June 2015 \$
Auditors' remuneration payable	23,568	18,915
Interest payable	1,211	1,547
Management fee payable	65,075	57,541
Unsettled trades payable	42,690	4,238,553
Performance fees payable	529,909	–
Dividend payable	53,335	23,256
Other payables	38,140	84,637
Total	<b>753,928</b>	<b>4,424,449</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 10. ISSUED CAPITAL

	30 June 2016		30 June 2015	
	No. of shares	\$	No. of shares	\$
Issued and paid up capital – Ordinary shares	46,918,297	46,678,301	46,918,297	46,678,301

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 \$	\$
1 July 2014	Opening balance	35,226,053		33,992,409
	Share option exercise (Listed options \$1.00 Exp 1 Feb 2015)	11,342,027	1.000	11,342,027
	Share option exercise (Listed options \$1.13 Exp 1 Aug 2015)	30,974	1.130	35,000
	Dividend reinvestment	319,243	1.036	330,690
	Share option reserve	–		978,175
30 June 2015	Closing balance	46,918,297		46,678,301
1 July 2015	Opening balance	46,918,297		46,678,301
	Dividend reinvestment on market shares	589,609		582,133
	Purchase of shares on market for DRP	(589,609)		(582,133)
30 June 2016	Closing balance	46,918,297		46,678,301

## 11. RESERVES

### a) Retained Earnings

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Opening balance	2,156,270	4,582,992
Net profit attributable to members of the Company	8,063,747	92,984
Dividends paid	–	(2,623,116)
Option expiry 1 February 2015	–	103,410
Option expiry 1 August 2015	1,434,545	–
Transfer to profits reserve	(11,654,562)	–
<b>Closing balance</b>	<b>–</b>	<b>2,156,270</b>

### 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 \$1.13 per option.
- 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 seven 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 2016 \$	Year ended 30 June 2015 \$
Opening balance	1,434,545	2,516,130
Share option exercise	–	(978,175)
Option expiry 1 February 2015	–	(103,410)
Option expiry 1 August 2015	(1,434,545)	–
<b>Closing balance</b>	<b>–</b>	<b>1,434,545</b>

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

	Year ended 30 June 2016 No. of options	Year ended 30 June 2015 No. of options
Opening balance	11,789,026	24,366,339
Exercise of \$1.00 options expiring 1 February 2015	–	(11,342,027)
Exercise of \$1.13 options expiring 1 August 2015	–	(30,974)
Option expiry 1 February 2015	–	(1,204,312)
Option expiry 1 August 2015	(11,789,026)	–
<b>Closing balance</b>	<b>–</b>	<b>11,789,026</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 11. RESERVES (CONTINUED)

#### c) Profits reserve

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Opening balance	–	–
Transfer from Retained Earnings	11,654,562	–
Dividend reinvestment on market shares	(582,133)	–
Dividend payment	(2,350,261)	–
Balance at the end of the year	8,722,168	–

The current year profits and retained earnings were transferred to the profits reserve. To the extent possible under the Corporations Act 2001 and applicable tax laws, this amount is preserved for future dividend payments.

### 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 2016 \$	Year ended 30 June 2015 \$
Deloitte Touche Tohmatsu – audit of the financial report	39,464	33,495
Total audit fee expense	39,464	33,495

### 13. CASH AND CASH EQUIVALENTS

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

	30 June 2016 \$	30 June 2015 \$
(Overdraft)/Cash at bank	(490,255)	2,723,813

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

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Profit for the year attributable to shareholders after tax	8,063,747	92,984
<b>Adjustments for:</b>		
Change in value of financial assets designated at fair value through profit or loss	(12,158,027)	1,543,060
Income tax expense/(benefit) recognised in the Statement of Profit or Loss and Other Comprehensive Income	3,173,938	(859,133)
Income tax paid	(169,005)	(515,440)
<b>Change in assets and liabilities:</b>		
(Increase)/decrease in trade and other receivables	(106,494)	63,696
Increase/(decrease) in trade and other payables	495,263	(732,752)
Net cash (used in)/provided by operating activities	(700,578)	(407,585)



## 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 2016 was \$45,000 (2015: \$45,000).

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.

As at 30 June 2016, NAOS Asset Management Limited holds 577,855 shares (1.23%) (2015: 542,954 shares (1.16%)) in the Company.

Other than the disclosure at Note 16 there was no interest in the Company held by other entities also managed by the key management personnel.

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

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

	Opening balance	Acquired	Sold	Closing balance
	No. of shares	No. of shares	No. of shares	No. of shares
<b>Ordinary shares</b>				
<b>Year ended 30 June 2016</b>				
Mr David Rickards (Chairman)	578,782	34,633	–	613,415
Mr Warwick Evans (Director)	1,794,697	115,364	–	1,910,061
Mr Sebastian Evans (Director)	836,800	79,790	–	916,590
<b>Ordinary shares</b>				
<b>Year ended 30 June 2015</b>				
Mr David Rickards (Chairman)	534,731	44,051	–	578,782
Mr Warwick Evans (Director)	1,565,774	1,692,084	(1,463,161)	1,794,697
Mr Sebastian Evans (Director)	749,455	265,845	(178,500)	836,800

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

As at 30 June 2016, the Company does not have any existing options (2015: \$nil).

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. RELATED PARTY INFORMATION

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

#### Management Fees

In return for the performance of its duties as investment manager of the Company, the Investment Manager is entitled to be paid a monthly management fee equal to 0.104% (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 2016:

- Management fees of \$675,811 (2015: \$614,385) (excluding RITC\*) were incurred during the year.
- Management fees payable at 30 June 2016 were \$65,075 (2015: \$57,541) (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 2016:

- Performance fees of \$ 493,778 (2015: \$nil (excluding RITC\*)) were incurred during the year.
- Performance fees payable at 30 June 2016 were \$ 529,909 (2015: \$nil) (including RITC\*).

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

### 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 throughout Note 17.

#### a) Credit Risk

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

*(i) Settlement of securities transactions*

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase orders on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

*(ii) Cash and cash equivalents*

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher.

*(iii) Other*

The Company is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are not considered to be impaired nor past due.

**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 2016 (2015: \$nil).

	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	–	–	–
Trade and other receivables	–	2,155,710	2,155,710
Financial assets at fair value through profit or loss	–	57,565,714	57,565,714
<b>Total Assets</b>	<b>–</b>	<b>59,721,424</b>	<b>59,721,424</b>
<b>Liabilities</b>			
Bank overdraft	490,255	–	490,255
Trade and other payables	–	753,928	753,928
<b>Total liabilities</b>	<b>490,255</b>	<b>753,928</b>	<b>1,244,183</b>
<b>Net exposure</b>	<b>(490,255)</b>	<b>58,967,496</b>	<b>58,477,241</b>
<b>30 June 2015</b>			
<b>Assets</b>			
Cash and cash equivalents	2,723,813	–	2,723,813
Trade and other receivables	–	1,914,719	1,914,719
Financial assets at fair value through profit or loss	–	49,972,357	49,972,357
<b>Total Assets</b>	<b>2,723,813</b>	<b>51,887,076</b>	<b>54,610,889</b>
<b>Liabilities</b>			
Trade and other payables	–	4,424,449	4,424,449
<b>Total liabilities</b>	<b>–</b>	<b>4,424,449</b>	<b>4,424,449</b>
<b>Net exposure</b>	<b>2,723,813</b>	<b>47,462,627</b>	<b>50,186,440</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

#### b) Market Risk (continued)

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

	Change in basis points increase/(decrease)	Impact on operating profit/ Net assets attributable to shareholders (\$)
<b>30 June 2016</b>		
AUD interest rate	25bps/(25bps)	(1,226)/1,226
<b>30 June 2015</b>		
AUD interest rate	25bps/(25bps)	6,810/(6,810)

##### (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 gross of tax	
	-10% \$	10% \$
<b>30 June 2016</b>	(5,756,571)	5,756,571
<b>30 June 2015</b>	(4,997,236)	4,997,236

##### (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 the reporting date is as below:

	% of Portfolio	
Industry	30 June 2016	30 June 2015
Consumer Discretionary	32%	31%
Telecommunication Services	32%	34%
Bulk Commodities	3%	1%
Transport	11%	14%
Real Estate	0%	6%
Other Industry Sectors	22%	14%
	100%	100%

### c) Liquidity Risk

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

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

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

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from 30 June 2016 and 30 June 2015 to the contractual maturity date.

	30 June 2016			Total \$
	On demand \$	< 1 month \$	> 12 months \$	
Cash and cash equivalents	490,255	–	–	490,255
Trade and other payables	–	753,928	–	753,928
<b>Total financial liabilities</b>	<b>490,255</b>	<b>753,928</b>	<b>–</b>	<b>1,244,183</b>
	30 June 2015			Total \$
	On demand \$	< 1 month \$	> 12 months \$	
Trade and other payables	–	4,424,449	–	4,424,449
<b>Total financial liabilities</b>	<b>–</b>	<b>4,424,449</b>	<b>–</b>	<b>4,424,449</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.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

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

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

The following table shows an analysis of financial instruments held at 30 June 2016, recorded at fair value and presented by level of the fair value hierarchy:

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

	30 June 2016			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	56,113,895	–	–	56,113,895
Convertible note	–	–	1,451,819	1,451,819
<b>Total financial assets designated at fair value through profit or loss</b>	<b>56,113,895</b>	<b>–</b>	<b>1,451,819</b>	<b>57,565,714</b>

	30 June 2015			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Listed equities	49,402,357	–	–	49,402,357
Convertible note	–	–	570,000	570,000
<b>Total financial assets designated at fair value through profit or loss</b>	<b>49,402,357</b>	<b>–</b>	<b>570,000</b>	<b>49,972,357</b>

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

The Company did not have any financial liabilities designated at fair value through profit or loss as at 30 June 2016 (2015: \$nil).

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.

#### 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 2016 the Company had \$56,113,895 (2015: \$49,402,357) financial assets held at fair value through profit or loss included in level 1. As at 30 June 2016 the Company also had \$nil (2015: \$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 2016 the Company had \$nil (2015: \$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 2016 the Company had \$1,451,819 (2015: \$570,000) 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.

#### Valuation of Convertible Note as at 30 June 2016

The fair value of the holding in the secured convertible note is as follows: No interest is accrued on the note. However, the note receives a redemption premium of 15% per annum on the amount owing under each note. A note has the option of being converted into ordinary shares prior to maturity at 20 cents per share, based on the value of the note, inclusive of any redemption premium. As such, the value of the note is calculated based on the total value of the capitalized interest redemption premium (15%) and applying a 20% discount to bid price (19.5 cents) 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.

#### *Valuation of Convertible Note as at 30 June 2015*

The fair value of the holding in the secured convertible note is as follows: No interest is accrued on the note. However, the note receives a redemption premium of 15% per annum on the amount owing under each note. A note has the option of being converted into ordinary shares prior to maturity at 20 cents per share, based on the value of the note, inclusive of any redemption premium. For the purposes of producing a monthly NTA and the preparation of statutory financial reports, the Board resolved to calculate the value of the note based on the total value of the redemption premium 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 2016 \$	Year ended 30 June 2015 \$
Opening balance	570,000	1,230,000
Unrealised gains/(losses) on financial instruments held at fair value through profit or loss	881,819	(660,000)
Closing balance	1,451,819	570,000
Total losses included in the Statement of Profit or Loss and Other Comprehensive Income at the end of the year	(248,181)	(1,130,000)

#### **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.



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 18. EARNINGS PER SHARE

	Year ended 30 June 2016 cents	Year ended 30 June 2015 cents
Basic earnings per share	17.19	0.23
Diluted earnings per share	17.19	0.23
	Units	Units
Weighted average number of ordinary shares used in the calculation of basic earnings per share	46,918,297	40,938,455
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	46,918,297	40,938,455
	\$	\$
Net profit used in the calculation of diluted basic earnings per share	8,063,747	92,984

### 19. COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies at 30 June 2016 (2015: \$nil).

### 20. SUBSEQUENT EVENTS

On 25 August 2016, the Company declared a fully franked dividend of 3.5 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 2016;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 (b) 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 August 2016

## 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 2016 the Company had the following investments:

#### **Investment**

---

Armidale Investment Corporation Limited Ordinary Shares

Attila Resource Limited Convertible Notes

BSA Limited Ordinary Shares

Clarius Group Limited Ordinary Shares

CML Group Limited Ordinary Shares

Enero Group Limited Ordinary Shares

Lindsay Australia Limited Ordinary Shares

My Net Fone Limited Ordinary Shares

---

During the financial year ended 30 June 2016, the Company had 824 (2015: 1,231) transactions in investment securities.

Total brokerage fees incurred during the year ended 30 June 2016 were \$62,907 (2015: \$208,505).

## 20 LARGEST SHAREHOLDERS

Details of the 20 largest ordinary shareholders and their respective holdings as at 31 July 2016.

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	3,328,436	7.09
Myall Resources Pty Ltd	2,600,000	5.54
RBC Investor Services Australia Pty Limited	1,697,460	3.62
Nivesa Pty Ltd	1,610,702	3.43
Australian Executor Trustees Limited	1,513,857	3.23
Myall Resources Pty Ltd	1,218,559	2.60
Patagorang Superannuation Pty Ltd	719,518	1.53
NAOS Asset Management Limited	677,855	1.44
Equitas Nominees Pty Limited	573,415	1.22
Mr Mark John Bahen & Mrs Margaret Patricia Bahen	561,641	1.20
IR and JB Investments Pty Ltd	528,361	1.13
Mr Donald Gordon Mackenzie & Mrs Gwenneth Edna Mackenzie	497,000	1.06
Australian Executor Trustees Limited	481,169	1.03
Woodduck Pty Ltd	441,084	0.94
A & J Purchase Pty Ltd	439,000	0.94
Burtoh Ventures Pty Ltd	400,300	0.85
Raystall Pty Ltd	400,000	0.85
Gaseous Pty Ltd	301,147	0.64
W W E Investments Pty Ltd	299,359	0.64
Finance Associates Pty Ltd	265,000	0.56
<b>Total</b>	<b>18,553,863</b>	<b>39.55</b>

## SUBSTANTIAL SHAREHOLDERS

Shareholders	Ordinary shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	3,328,436	7.09
Myall Resources Pty Ltd	2,600,000	5.54

## **ADDITIONAL INFORMATION**

Continued

### **DISTRIBUTION OF ORDINARY SHARES**

Analysis of ordinary shares by size of shareholders as at 31 July 2016.

Category	Number of shareholders	Ordinary shares held	% of issued shares
1-1,000	32	12,765	0.03
1,001-5,000	144	489,262	1.04
5,001-10,000	133	1,138,310	2.43
10,001-100,000	597	19,763,055	42.12
100,001 and over	63	25,514,905	54.38
Total	969	46,918,297	100.00

### **VOTING RIGHTS**

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

### **ASX LISTING**

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

### **BUY BACK**

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

### **NON-MARKETABLE PARCELS**

As at 31 July 2016, the Company had no 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

Richard Preedy

### Registered Office

Level 34, MLC Centre  
Martin Place  
Sydney NSW 2000  
Telephone: (02) 9002 1576  
Facsimile: (02) 8215 0037

### Investment Manager

NAOS Asset Management Limited  
Level 34, MLC Centre  
Martin Place  
Sydney NSW 2000  
(Australian Financial Services Licence Number: 273529)  
Telephone: (02) 9002 1576  
Facsimile: (02) 8215 0037

### Share Registry

Boardroom Pty Limited  
Level 12  
225 George Street  
Sydney NSW 2000  
Telephone: 1300 737 760  
Facsimile: 1300 653 459

### Auditor

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

