KAIZEN GLOBAL

Investments

# ANNUAL REPORT 2018

**CONTENTS**

**CHAIRMAN’S LETTER**

To my fellow Shareholders,

We continue to see asset valuations being quite stretched in certain parts of the world, for example in listed companies in the United States that are large and perceived to be ‘high quality’.

Legendary investor Howard Marks calls these "super-stocks”. He counsels “*stocks that lead a bull market inevitably become priced for perfection and in many cases the companies' perfection turns out eventually to be either illusory or ephemeral."*

Experience tells us that when companies publish results, and share prices fall up to 20% (Twitter, Netflix and Facebook), then we are starting to see a roll over in these “super-stocks”.

Your exposure to this downturn may be greater than you think. Ask questions of your Global Fund, look at the portfolio, ensure they are truly diversified and not a US Growth Fund in disguise. You may not find how correlated your portfolio is until the tide has gone out.

Kaizen Global Investments are focused on investing over a rolling five-year horizon, looking across the globe for companies where we have a quantifiable edge in both understanding and valuation.

We seek out companies which are misunderstood by the market, and poorly covered by our competitors or brokers. We constantly speak with executive management and perform deep due-diligence on potential investments.

We believe that the best long term investment opportunities are found when not travelling ‘with the herd’.
Our investment manager also has a mandate to sell short, thereby potentially preserving your capital in a downturn. The Investment Managers letter shares more information on our portfolio, and an example of how we invest.

**Performance**

In the 2018 financial year the net tangible asset (NTA) value of KGI fell by 1.1%, share capital remained unchanged, and we have not paid a dividend.

**AGM**

We will be contacting you shortly about our annual general meeting – which will provide you with the chance to meet with KGI’s key management personnel, and ask any questions you may have. I look forward to seeing you there.

Yours sincerely,

Simon Winfield
12 September 2018

## INVESTMENT MANAGER'S LETTER

Dear Shareholders,

Investing is not meant to be easy. If it were easy everyone would be rich and that simply isn't the case, as we all know. So, in order to be successful one needs to apply a formula and approach that can skew the odds in the favour of the investor versus the market in general. You have to know *why* you could be right and *how* everyone else could be wrong. Over our investment careers we have built up an approach which combines deep, fundamental company and sector research, taking the long-term view (5 years plus), quantifying the opportunity and risk, and evaluating why everyone else has missed that particular idea. Then weighting that idea in a diversified portfolio.

This has worked for us over many years yet we have found investing in the past few years some of the most frustrating in our career. Why? Whilst we've been out in the reeds doing deep research on companies that are poorly researched, owned or followed, we see companies that are out in the open for all to see going up and up in value. In this bull market many fund managers have simply bought 'great' companies and the technology giants like Amazon, Facebook etc and they have performed very well. Global funds have also been invested in the United States, probably more to do with the fact that it is an easier market to research, with familiar brands, than it being a specific global, capital allocation pick.

**Investing is not a popularity contest**

We too recognise these great companies. They aren't difficult to spot, yet we find everyone thinking the same thing. There is no 'edge' or deep insight into their valuation or prospects, and normally that is a danger sign since all the good news can quickly be baked into the share price. Remember, investing is not a popularity contest i.e. I'll buy shares in companies I like and are well known. There is a large element of valuation required i.e. How much am I willing to pay for this popular company in order to deliver a return? If I overpay for it, I might have little or no return at all. In the short term though it can be a popularity contest, since the crowd buying makes the share price increase. This, in turn, attracts others who buy the same shares mistaking strong share price performance for safety (the opposite applies) and fear of missing out. Until the music stops, of course, which it always does.

If all anyone needed to do was buy shares in popular companies the logical conclusion is that those share prices would keep going up. If price and valuation didn't matter then you'd just keep buying them. But, alas, that isn't how markets work over the long-term.

We have found the stock market to be more like a casino, than usual, with a very short-term horizon, rather than the weighing machine it tends to be over the long-term. Shares that have done well continue to do so (momentum) and shares that are 'off the radar' seem to just stay 'off the radar'. We have invested in shares that are off the radar or where we have a meaningfully different view. Some of these investments have worked, some have not (for now, at least, we believe).

During our careers we have held companies in the portfolio that we found to be very attractively valued, only to have them bid for by corporates. This is always bitter-sweet. It is sweet because we have a bump in the valuation of the holding for the month, but bitter because over the long-term we will need to find a replacement holding with the same appeal. We may enjoy a 20-30% jump in value in the month but lose the opportunity to potentially make 100%,200%, 300% on that same investment.

One of our current positions, Spookfish, is, at time of writing, in the process of being taken private. We have eked out a modest gain but not realised the upside we believed possible. This will be transferred to the private entity buying them out.

We hold a portfolio of investments that we believe has the opportunity to compound capital at decent rates in the years to come.

Whilst we are not 'market timers', trying to read when the stock-market indices will enter a cyclical bear market, it is worth considering the probabilities and opportunities that could present themselves if there was a correction. We are well overdue a bear market and the current bull market is the longest in recorded history. The sun rises in the east and bull markets end. Bear markets end too though, and the prepared mind can profit from that cycle if positioned correctly.

**Money can be made 3 ways in the market over the long term.**

1) Be 'long' (invested) in' the bull market (obvious) but be cautious not to be too long near tops;
2) Have shorts in bear markets and try and preserve capital; and
3) **In bear markets**: Switch into good businesses suffering temporary setbacks at rock bottom prices.

**The third is potentially a very important way** to benefit from fire sale prices and help to compound capital over the medium term. **Our investment mindset is different to the herd** in this respect, as **we see bear markets as great opportunities – not guarantees - to make supernormal returns.**

**Vitasoy – Market cap $3.6bn US dollars**

Wherever possible, we like to invest in companies that can compound earnings for as long as possible. This sounds obvious, but it's not so easy to find them at the right price.

We invested in Vitasoy, the branded soy milk manufacturer, a few years ago around 14.8 HK dollars per share. It has since increased by 75% and we see a 5-10 year runway ahead for future growth, especially driven by the China market.

**This investment has several key attributes we like:**

First, there is a secular shift from wet market, potentially unhygienic, unbranded soy milk sellers, to branded suppliers. Companies like Vitasoy focus on nutrition, so can differentiate product and we see this as a similar business to vitamins/minerals where the milk is the carrier.

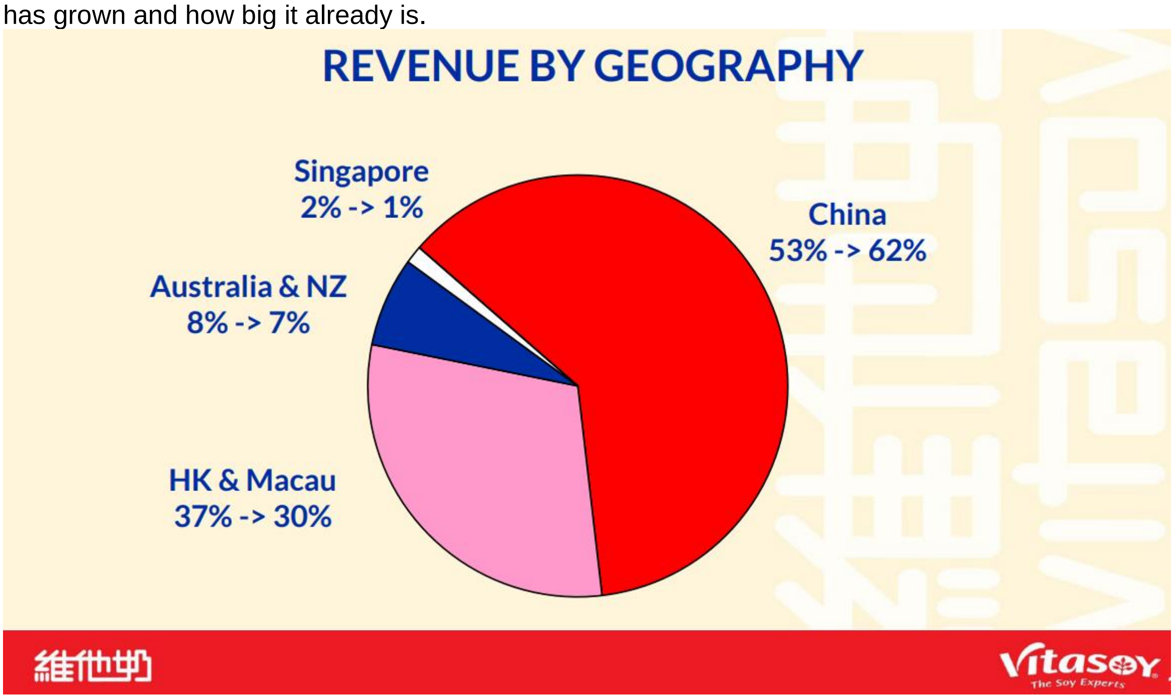
Second, the company has very strong brand equity in Hong Kong, with >90% market share, as well as other markets like Australia. This is important for Chinese consumers, who are very wary of 'trust' issues in the food chain. When they do research and they find the product sold in other developed countries, that level of trust goes up. Or perhaps they see it on shelves on a visit to Hong Kong, where it has very high market share.

Could Vitasoy become the number 1 branded soymilk company in China one day? It could, and if it did it would be worth many multiples of what it is today.


Source: Vitasoy

**China matters**

In the chart below you can see the revenue change (in percentage) over the last year. Note how quickly China has grown and how big it already is.




Source: Vitasoy

Some pictures of product on the shelves and revenue growth in China (41% RMB).


As an investment, we like Vitasoy because it is under-covered and under-owned. It brought in a new C.E.O. a few years ago with a background at Coca-Cola. Making contact with the company has been more difficult than other listed companies and we see the company operating as a quasi private enterprise. It has a focus on executing its ‘go deep, go wide’ strategy in China, rather than courting Wall street and doing big roadshows and investor days. This is good and bad, it’s good because the company is focused on operations, it’s bad because it makes it difficult to analyse, and keeps it off the radar of many investors.

**Analysis and valuation**

This is a stock that always appears expensive on current earnings. It seems to us, to grow earnings in step functions as it opens new manufacturing facilities. At first this depresses earnings growth, because of low utilization rates, but then, as the factories fill up, incremental margins are high and produce more robust cash flows. This is then reinvested in new manufacturing facilities, at attractive returns on capital, and the earnings growth rates are depressed again.

We believe that the stock isn’t as expensive as it seems at first pass because of the dynamic described above. In a perfect world we would model each manufacturing plant, new potential sites and do a net present value on each – then sum them up to get a value today. The challenge for us is that we can’t get very granular details from the company on manufacturing volumes by plant, margin trajectory as they fill and incremental expansion costs per site etc. That said, neither can anyone else, even if they tried to do this. Therefore we approach valuation by smoothing a long-term earnings path, sizing the Chinese opportunity and accept that historic earnings multiples will look high.

The company grew sales by 23% in the first half of 2018 and profit before tax by 22%. We note that there is surprising variability in sales growth. For example, China grew sales by 41% in the first half of 2108, cycling growth of only 7% last year. This is important. 41% growth is probably above trend and 7% below. The stock price, however, will bump around as the delivered results vary quite markedly. We’d expect soft stock prices around slow growth and perhaps a little too much excitement when they are strong. We are not trying to ‘time’ this investment by jumping in and out of it by half year results. We focus, instead, on one key metric. Can Vitasoy continue to grow its China business at high incremental returns on capital? If it can, it will become a giant company and we will be well rewarded as patient investors.

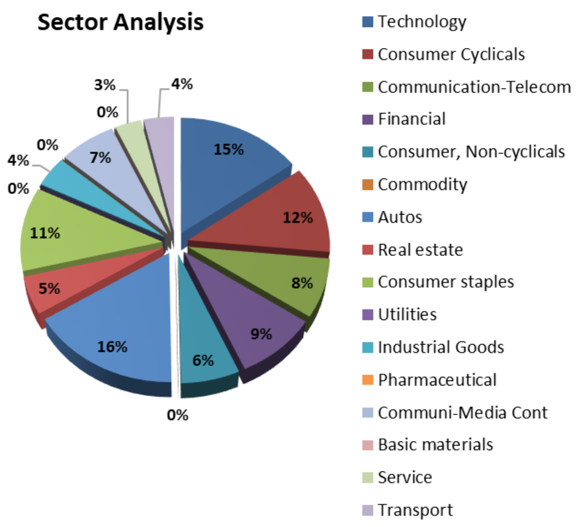
**Risks**
Our biggest risk in this name is variability around half yearly earnings. The stock can move markedly around these numbers and, in our opinion, this is just noise. The second 'risk' is that a beverage giant buys them at a premium. We say this is a risk because if Vitasoy was taken out at a 30% premium we'd be really disappointed. Yes, we'd get a bump in the month's performance, but we'd lose a compounding machine that is hard to replace.

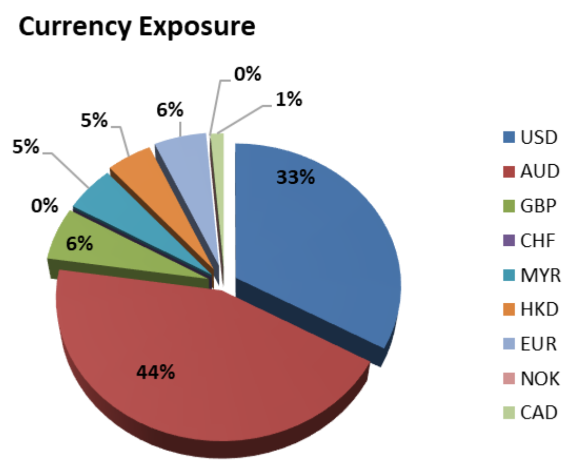
**Health business**

During the year we made our first private investment in the health space.

**Portfolio positioning**

We have invested across multiple countries and sectors as can be seen in the two charts below. We are invested in a combination of long positions, shorts and inflation protection. We believe that the biggest risk to markets is unexpected inflation and have insurance in place should that happen. We think about capital preservation as much as capital growth at all times.




We believe that the single greatest opportunity for the coming 5-10 years is to invest (i.e. sit tight) and not jump in and out of stocks (trade). We are in a period of enormous change and that brings opportunity. We are optimistic about the long-term and believe that our best days are ahead.

Yours sincerely,

Connor Grindlay
**12 September 2018**

## DIRECTORS' REPORT

Your directors present their annual financial report on Kaizen Global Investments Limited (the **Company** or **KGI**) for the financial year ending 30 June 2018 as required by the Corporations Act 2001 (Cth)(**the Act**) and the NSX Listing Rules. In addition to the financial statements for the year and the notes accompanying those statements, your Directors provide a declaration about those statements and notes.

### General information about operations and activities

The Company is listed on the NSX. During the year the Company's Investment Manager continued to implement KGI's investments strategy by investing the Company's capital in global listed securities affected by thematic trends, while paying close attention to valuation and margin of safety. KGI made an investment in unlisted private company in the health space during the year.

We remain focussed on growing our shareholders' post-tax NTA per share in absolute terms. As at 30 June 2018 the NTA post tax valuation was $0.9578 per share.

### Principal activities

KGI's principal activities during the year were investing in global listed securities, predominantly equities. There were no significant changes in the nature of those activities during the year.

### Financial Position

For the year ended 30 June 2018, the Company recorded a post-tax loss of $33,674 and its net tangible assets (**NTA**) were $3,030,677 after tax, versus $3,064,351 the previous year. The Company's financial position is set out in its Financial Statements at pages 22 to 40.

### Significant Changes

There is no matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect: the Company's operations in future financial years; or the results of those operations in future financial years; or the Company's state of affairs in future financial years.

### Environmental issues

The Company's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

### Omissions

The Company has not omitted from this report any prejudicial material that would otherwise be required to be included by law.

**After Balance Date Events**

The Directors are not aware of any other events that would have significant impact on the operations of the Company.

**Future developments, prospects and business strategies**

The Company will continue to pursue its investment objectives for the long-term benefit of its shareholders. This will involve the continued review of its investment strategy, and may, from time-to-time, require some changes to that strategy. To achieve our investment objectives, we intend to invest the majority of the Company's capital (at cost) in global listed shares and to diversify risk by investing in other investments, including unlisted private companies.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly we do not provide a forecast of the likely results of our activities.

**Additional general information**

The Company has reported and released to the NSX an unaudited NTA valuation per share each month of the financial year ending 30 June 2018. Each of those monthly valuations is available at the following website: http://www.nsxa.com.au/summary/KGI.

In accordance with Listing Rule 6.9, the Directors further report that, as set out above, the principal activities of the Company are investing in global securities. The Company has no subsidiary entities and does not form part of a group of companies.

The annual accounts for the period do not differ materially from any published forecast made by the Company, of which there was none. None of the Directors are parties to service contracts between them and the Company.

Insofar as contracts of significance are concerned, those described in the Company's Prospectus dated 21 January 2015 remain in place, namely the Investment Management Agreement and the Deeds of Access, Indemnity and Insurance. These are contracts of significance in which the Company's Directors are or were materially interested either directly or indirectly and which subsisted during or at the end of the financial year.

All of the Company's Directors have agreed to waive any emoluments until 30 June 2018. There are no arrangements under which a shareholder has waived or agreed to waive any dividends. Below is a list of KGI's top 10 shareholders and the number of KGI fully paid ordinary shares that they hold.

| **Shareholder** | **Shareholding** | |
|---|---|---|
| CLG Investments Pty Ltd | 375,305 | 11.86% |
| Tom Hale Pty Ltd | 366,492 | 11.58% |

| | | |
|---|---|---|
| Kaizen Capital Pty Ltd atf Kaizen Recap Fund I | 305,000 | 9.64% |
| Airthrey Investments Pty Ltd | 250,000 | 7.90% |
| Mr Patrick Flaherty | 200,000 | 6.32% |
| MDH Capital Pty Ltd | 157,068 | 4.96% |
| Mr Edmunds and Ms Nissen atf Edmunds SMSF | 152,356 | 4.81% |
| Intermondiale Pty Ltd | 150,000 | 4.74% |
| Mr Simon Winfield | 102,356 | 3.32% |
| Drs S Liew and T Saurine | 100,000 | 3.23% |
| Mr C Grindlay | 50,001 | 1.58% |
| Chartlands Pty Ltd | 50,000 | 1.58% |

**Dividends**

No dividends or distributions were paid to members during the year; and no dividends or distributions were recommended or declared for payment to members, but not paid, during the year.

**Options**

No options have been granted over unissued shares or unissued interests during or since the end of the year. No options have been granted to any of the directors or any of the 5 most highly remunerated officers of the company (other than the directors); and granted to them as part of their remuneration. As at the day the report is made there are no unissued shares or interests under option. No shares or interests have been issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

**Indemnities**

During the year the Company provided an indemnity to directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of KGI, other than conduct involving a wilful breach of duty in relation to the Company. The content of the insurance policy prohibits disclosure of the nature of the loss or liability indemnified, the indemnity limit or the amount of premium paid. The Company did not provide an indemnity to the auditors.

**Directors, Company Secretary and Auditor**

The following persons have been a director of the Company at all times during, or since, the end of the year:

- Connor Grindlay – appointed 26 September 2014
- Simon Winfield – appointed 26 September 2014 and re-elected at AGM on 8 November 2017.
- Andre Edmunds – appointed 4 November 2014 and re-elected at AGM on 7 November 2016.

KGI’s company secretary at any time during the year was Lisa Grindlay.

For the relevant period, Martin Michalik was a director of Stantons International Audit and Consulting Pty Ltd (**Stantons**), that is the auditor of KGI, and was such a director at a time when Stantons undertook an audit of KGI.

**Directors**

**Connor Grindlay**, Managing Director and Chief Investment Officer

| | |
|---|---|
| **Qualifications** | Masters of Civil Engineering with European Studies, Credit Suisse training program, CFA UK Certificate in Investment Management, and Investment Management and Research (IIMR) Associate examinations. |
| **Experience** | Connor Grindlay has been the Managing Director and Chief Investment Officer of KGI since 26 September 2014. He is also the Managing Director and founder of Kaizen Capital Pty Ltd (the Manager or Investment Manager for KGI). Prior to listing KGI, Connor worked with two Australian-based fund managers – 8 Investment Partners and Caledonia Investment (2010 – 2014); Millennium Capital Partners, a New York billion dollar fund (2008); Castlegrove Capital, a London-based global multi-strategy fund (2006 - 2008); and Trafelet, a multi-billion dollar US-based hedge fund (2004 - 2006). Connor also worked as an analyst at WestLB Panmure in London (2002) and cofounded hedgefundcity.com, an online media portal for the global hedge fund industry (2000). |
| **Special responsibilities** | As Managing Director of KGI his special responsibilities include making a declaration relating to statutory accounts under s 295A of the Corporations Act 2001. He is a member of the KGI Audit Committee and holds no other directorship in any other listed entities.<br><br>Connor Grindlay holds 450,306 shares. |

**Simon Winfield**, Chairman

| | |
|---|---|
| **Qualifications** | MBA, and Graduate Certificate in Carbon Management. |
| **Experience** | Simon Winfield is KGI's Chairman and has been a director since 26 September 2014. He has also been a director of the Manager since October 2009. Prior to joining Kaizen Simon was a director of a NSW-based agricultural technology company; Managing Director / Head of European Equity Sales at Bank of America (2001 – 2003); and in equities research sales at Credit Suisse (1990 – 2001). Simon also worked in UK equities for Grieveson Grant, Grant W Greenwell and UBS until 1990. He started his career in finance in 1979 at the London Stock Exchange. |
| **Special responsibilities** | As Chairman of KGI, Simon's special responsibilities include reporting to members and conducting shareholder meetings, acting as Trading Officer and as a member of the Audit Committee. He holds no other directorships in other listed entities.<br><br>Simon Winfield holds 157,356 shares |

**Andre Edmunds**, Non-Executive Director

| | |
|---|---|
| **Qualifications** | Bachelor of Aeronautical Engineering (Honours), Member of the British Computer Society, and Chartered IT Professional in Program and Project Management. |
| **Experience** | Andre Edmunds is KGI's sole Non-Executive Director, and has been a director since 4 November 2014. He has been a director of a consultancy and executive advisory service company since March 2007; was a Member of the Australian Institute of Project Management (2006-2011); and performed the role of BCS Assessor for Membership Status (2009 and 2010).<br><br>Andre has experience in software development and pre-sales, project management, transformation, turnaround/rescue and mobilization programs. He has consulted to executive boards of small, medium and large companies, and government organisations. He has worked with AMP General Insurance, CSC Australia, Deloitte UK, Barclays, Toyota, Volkswagen, Cazenove Capital Management, Orange Sweden, Hutchison 3G, VirginMedia, Optus, Telstra, Downer, Foxtel, News Ltd, and Transport for NSW. |
| **Special responsibilities** | As a KGI director, Andre's special responsibilities include membership of the Board of Directors and Audit Committee. He holds no other directorships in any other listed entities.<br><br>Andre Edmunds holds 162,356 shares |

**Meetings of the Board of Directors**

During the financial year, the following board meetings were held:

| | Eligible to attend | Attended |
|---|---|---|
| Connor Grindlay | 3 | 3 |
| Simon Winfield | 3 | 3 |
| Andre Edmunds | 3 | 3 |

**Meetings of the Audit and Risk Committee**

The committee met once during the period with all three directors eligible to attend, and all three attended.

**Company Secretary**

Lisa Grindlay BA, LLB (Hons) is the Company Secretary and was at all times during the period. Lisa has over 15 years of legal experience, gained as both a solicitor and barrister. She has been company secretary for KGI since September 2014, and for Kaizen Capital since October 2009.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors is committed to maintaining high standards of safety, performance and corporate governance for the Company and any entities it may control. To foster good corporate governance the Company has developed a set of core values and behaviours that underpins its activities and ensures transparency, fair dealing and protection of the interests of all stakeholders – including shareholders, personnel, suppliers and communities – with which it operates.

Below is a summary of the Company's full Corporate Governance Statement, which is available on the Company website.

### Board of Directors

In general the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. The Board takes advice from the Audit Committee on matters within its Charter, however the Board retains final decision-making authority on those matters.

The Board will consider nominations for appointment or election of Directors that may arise from time to time, having regard to the skills and experience required by the and procedures outlined in the Company's Constitution and the *Corporations Act*.

The Company's constitution requires one third of the Directors to retire at each Annual General Meeting. The Director(s) who retire under this rule are those who have held office the longest since last being elected or appointed. This rule does not apply to the Managing Director.

The Chairman leads the Board and has responsibility for ensuring that the Board receives accurate, timely and clear information to enable Directors to perform their duties as a Board.

### Executive and Non-Executive Directors

The Company currently has two Executive Directors - the Managing Director and Chairman. The Board believes that the benefits to shareholders of a separate, independent Non-Executive Chairman, CEO and CFO does not outweigh the disadvantage of the real or perceived divergence of command and the additional remuneration and administrative expenses involved. However, the Board will periodically review whether it would be more appropriate to appoint an independent Non-Executive Chairman, CEO and CFO.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The Board currently has one Non-Executive Director. The Board as a whole is satisfied that the Non-Executive Director brings an independent discretion to his deliberations, unaffected by the executive status of the Chairman.

**Meetings of the Board**

The Board holds regular meetings, and holds additional meetings whenever necessary to deal with specific matters requiring attention. Directors' circulatory resolutions are also utilised where appropriate either in place of or in addition to formal Board meetings. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

**Conflicts of Interest**

To ensure that Directors are at all times acting in the interests of the Company, Directors must disclose to the Board actual or potential conflicts between the interests of the Director and those of the Company; and if requested by the Board, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest, then the Director must absent himself from the room when Board discussion and/or voting occurs on matters to which the conflict relates (unless the law allows otherwise).

**Related-Party Transactions**

Related-party transactions include any financial transaction between a Director and the Company as defined in the Corporations Act or the NSX Listing Rules. Unless there is an exemption from the requirement to obtain shareholders' approval for the related-party transaction, the Board may not approve the transaction. The Company will also disclose related-party transactions in its Annual Report as required under the Corporations Act and relevant Accounting Standards.

**Share Dealings and Disclosures**

The Company has adopted a Share Trading Policy, which applies to Directors and employees of the Company and contractors who have agreed to be bound by the policy. The policy is designed to explain the type of conduct in relation to dealings in the Company's securities that is prohibited under the relevant law and by the Company, including insider trading; and establish a procedure for buying, selling or otherwise dealing in the Company's securities.

**Independent Professional Advice**

Subject to prior approval by the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as a Director.

**Audit Committee**

The Audit Committee has a formal charter to prescribe its objectives, duties and responsibilities, access and authority, composition, membership requirements of the Committee and other administrative matters. It has an audit oversight function, with key responsibilities being to review and approve the audited annual and auditor reviewed half-yearly financial reports, to review reports from management and matters related to the external auditor and a risk management function. The Audit Committee currently comprises all members of the Board.

**CEO and CFO Declarations**

The Company has a Managing Director and the Board has determined that (pursuant to section 295A(3) *Corporations Act*) the Managing Director is the appropriate person to make the CEO/CFO equivalent declaration in relation to the Company's financials.

**External Auditor**

The Company's external auditor is selected for its professional competence, reputation and the provision of value for professional fees. The external Auditor attends the Company's AGMs (in person or by teleconference) and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

**Continuous Disclosure to NSX**

In accordance with the law, the Company continuously notifies the NSX of information which a reasonable person would expect to have a material effect on the price or value of the Company's securities. A reasonable person is taken to expect information to have a material effect on the price or value of the Company's securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

**Market and Shareholder Communications**

Shareholders own the Company. Increasing shareholder value is the Company's key mission. Shareholders require an understanding of the Company's operations and performance to enable them to be aware of how that mission is being fulfilled. The Directors are the shareholders' representatives. In order to properly perform their role, the Directors must be able to ascertain the shareholders' views on matters affecting the Company.

The Board therefore considers it paramount to ensure that shareholders are informed of all major developments affecting the Company and have the opportunity to communicate their views on the Company to the Board. Information is communicated to shareholders and the market through various means including the Company's website and social media presence, emails and notifications, and the NSX website.

**Risk Committee**

As a consequence of the size and composition of the Company's Board, the Board does not have a stand-alone Risk Committee. However, the Company's Audit Committee has an important risk management and compliance function, with key responsibilities being to ensure that an appropriate risk management framework is in place and is operating properly and reviewing and monitoring legal and policy compliance systems and issues.

**Internal Audit**

The Company does not have an independent internal audit function. Due to the nature and size of the Company's operations, the expense of an independent internal auditor is not considered to be appropriate.

### Remuneration Committee

Due to the nature and size of the Company, the Board does not currently have a Remuneration Committee with a remuneration and nomination function.

### Equity-Based Remuneration Scheme

The Company does not have an Employee Share Option Plan (**ESOP**) and has not issued equity-based remuneration (including shares and options) to Directors or Senior Management.

## REMUNERATION REPORT (AUDITED)

The board's policy for determining, or in relation to, the nature and amount of remuneration of the key management personnel for the Company was set out in the Company's Prospectus dated 21 January 2015 (Section 6.10), and remained unchanged during the year. Such policy states that the KGI directors will be entitled to receive a maximum total remuneration (including superannuation) of up to $75,000 per annum to be divided amongst them in such proportion as they agree. However, the directors agreed to waive any fee that they would otherwise be entitled to until the earlier of 30 June 2018.

The board's remuneration policy is designed to keep the Company's operating costs down, and there is no relationship between the policy, and each member of the key management personnel for the Company and the Company's performance.

None of KGI's key management personnel receive remuneration, which consists of KGI securities in satisfaction of performance of their duties. Nor is their remuneration related to performance.

The Company's last annual general meeting (**AGM**) was held on 8 November 2017 and there was no discussion or any questions asked about the remuneration report considered at that AGM. The resolution in relation to the remuneration report for the financial year ending 2017 was passed on a show of hands with the requisite number of votes.

**Details of remuneration for year ended 30 June 2018**

The Company has three directors and one company secretary. Details of the remuneration for each officer of the Company was as follows:

| 2018 | Salary & fees $ | Superannuation contributions$ | Other $ | Total $ |
|---|---|---|---|---|
| Connor Grindlay | Nil | Nil | Nil | Nil |
| Simon Winfield | Nil | Nil | Nil | Nil |
| Andre Edmunds | Nil | Nil | Nil | Nil |
| Lisa Grindlay | Nil | Nil | Nil | Nil |
| Total | $ Nil | $ Nil | $ Nil | $ Nil |

**Securities holdings – ordinary shares**

Number of shares personally held by directors and company secretary:

| | Balance 30/06/17 | Received as remuneration | Options exercised | Other change* | Balance 30/06/18 |
|---|---|---|---|---|---|
| Connor Grindlay | 50,001 | Nil | Nil | None | 50,001 |
| Simon Winfield | 102,356 | Nil | Nil | None | 102,356 |
| Andre Edmunds | 5,000 | Nil | Nil | None | 5,000 |
| Lisa Grindlay | 25,000 | Nil | Nil | None | 25,000 |
| Total | 182,357 | | | | 182,357 |

Number of shares in which directors have a joint or beneficial interest

| | Balance 30/06/17 | Received as remuneration | Options exercised | Other change* | Balance 30/06/18 |
|---|---|---|---|---|---|
| Connor Grindlay | 375,305 | Nil | Nil | None | 375,305 |
| Simon Winfield | 55,000 | Nil | Nil | None | 55,000 |
| Andre Edmunds | 157,356 | Nil | Nil | None | 157,356 |
| Total | 587,3661 | | | | 587,661 |

**Securities holdings - options**

The combined number of options held personally, jointly and/or beneficially by the directors and company secretary. There were no options held by the directors and company secretary in the financial year to 30 June 2018.

No options were granted to the Directors as part of their remuneration. No shares or interests have been issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests. No shares or interests in shares were issued as a result of exercise of options.

**Auditor**

The auditor's independence declaration for the year ended 30 June 2018 has been received and may be found on page 41 of this report.

**Non-audit services and auditor independence**

No amounts were paid or payable to the auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf).

**DIRECTORS' DECLARATION**

The above Directors' Report dated 12 September 2018 has been made in accordance with a resolution of the board of directors made on 12 September 2018 and is signed by:

**CONNOR GRINDLAY**
Managing Director

12 September 2018

**SIMON WINFIELD**
Chairman

12 September 2018

## FINANCIAL STATEMENTS

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| Income/(loss) from deposits | 4 | (7,096) | (17,951) |
| Income from dividends | 4 | 18,188 | 28,642 |
| Net changes to net fair value of investments | 5 | 26,125 | 82,279 |
| **Total income from ordinary activities** | | **37,217** | **92,970** |
| Administration expenses | 6 | (89,939) | (90,744) |
| **Operating profit before income tax** | | **(52,722)** | **2,226** |
| Income tax charge relating to ordinary activities | 7 | 19,048 | (1,288) |
| **Profit attributable to members of the company** | | **(33,674)** | **938** |
| Other comprehensive income for the financial year | | | |
| - Items that may be reclassified to profit and loss | | - | - |
| - Items that will not be reclassified to profit and loss | | | |
| **Total comprehensive income/(loss) for the financial year** | | **(33,674)** | **938** |
| **Overall operations** | | | |
| Basic earnings per share (cents per share) | 13 | (1.064) | 0.034 |
| Diluted earnings per share (cents per share) | 13 | (1.064) | 0.034 |

The accompanying notes form part of these financial statements.

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

| ASSETS | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Cash and cash equivalents | 8 | 543,132 | 451,782 |
| Trade and other receivables | 9 | 79,674 | 14,213 |
| Financial assets held at fair value through profit and loss | 10 | 2,848,833 | 3,103,169 |
| Deferred tax assets | 11 | 77,474 | 37,483 |
| **TOTAL ASSETS** | | **3,549,113** | **3,606,647** |
| | | | |
| **LIABILITIES** | | | |
| Trade and other payables | 12 | 21,049 | 31,814 |
| Financial liabilities held at fair value through profit and loss | 10 | 457,364 | 491,410 |
| Deferred tax liabilities | 11 | 40,023 | 19,072 |
| **TOTAL LIABILITIES** | | **518,436** | **542,296** |
| | | | |
| **NET ASSETS** | | **3,030,677** | **3,064,351** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 14 | 3,087,052 | 3,087,052 |
| Accumulated losses | | (56,375) | (22,701) |
| **TOTAL EQUITY** | | **3,030,677** | **3,064,351** |

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

**FOR YEAR ENDED 30 JUNE 2018**

| | Issued capital | Accumulated losses | Total |
|---|---|---|---|
| **2018** | **$** | **$** | **$** |
| **Balance at 1.07.2017** | 3,087,052 | (22,701) | 3,064,351 |
| Issued (net of costs) | - | - | - |
| Total comprehensive profit for the year | - | (33,665) | (33,674) |
| **Balance at 30.06.2018** | **3,087,052** | **(56,366)** | **3,030,677** |
| **2017** | | | |
| **Balance at 1.07.2016** | 2,589,864 | (23,639) | 2,566,225 |
| Issued (net of costs) | 497,188 | - | 497,188 |
| Total comprehensive profit for the year | | 938 | 938 |
| **Balance at 30.06.2017** | **3,087,052** | **(22,701)** | **3,064,351** |

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS**

**FOR YEAR ENDED 30 JUNE 2018**

| | Note | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest (paid)/received | | (34,100) | (16,077) |
| Dividends Received | | 4,908 | 32,267 |
| Payments to suppliers | | (103,131) | (80,650) |
| Net cash (used in) operating activities | 17 | (132,323) | (64,460) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases to acquire financial assets | | (2,491,308) | (3,230,558) |
| Sales of Financial Assets | | 2,749,085 | 2,395,822 |
| **Net cash provided by/(used in) investing activities** | | 257,777 | (834,736) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of Shares | | - | 500,000 |
| Capital raising costs | | - | (2,812) |
| Loan From Related Parties | | (3,051) | - |
| **Net cash provided by financing activities** | | (3,051) | 497,188 |
| **Net increase /(decrease) in cash held** | | **122,403** | **(402,008)** |
| Cash at beginning of year | | 451,781 | 868,422 |
| Effect of Exchange Rate Changes | | (31,052) | (14,632) |
| **Cash at end of year** | 8 | 543,132 | 451,782 |

The accompanying notes form part of these financial statements.

## 1. INCORPORATION AND ACTIVITIES

Kaizen Global Investments Limited (**the Company**) is an NSX Listed Investment Company (**LIC**) incorporated under the *Corporations Act 2001*(**the Corporations Law**) on 26 September 2014. The principal activity of the Company is to generate long-term capital appreciation while preserving capital. The Company invests substantially in global listed equities. Kaizen Capital Pty Limited is the investment manager of the Company (**the Investment Manager**). The financial statements presented are for the year ended 30 June 2018. The comparatives stated are for the year to 30 June 2017.

## 2. BASIS OF PREPARATION

The Financial Statements are general purpose financial statements which have been prepared in accordance with the Corporations Law and Accounting Standards and Interpretations, and other laws that apply to Accounting Standards including Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS). All Amounts are presented in Australian dollars unless otherwise noted.

The Financial Statements of the Company for the year ended 30 June 2018 were approved by the Directors on 12 September 2018.

## 3. SUMMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Company, together with an assessment of the potential impact of such pronouncements on the Company when adopted in future periods, are discussed below:

- **AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018)**

  The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The key changes that may affect the Company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

  The directors anticipate that the adoption of AASB 9 will not have a material impact on the Company's financial statements.

- **AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).**

  When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108, *Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15), or recognise* the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements.

The directors anticipate that the adoption of AASB 15 will not have a material impact on the Company's financial statements.

- **AASB 16: *Leases* (applicable to annual reporting periods commencing on or after 1 January 2019).**

  When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as either operating leases or finance leases. Lessor accounting remains similar to current practice.

  The main changes introduced by the new Standard are as follows:

  - recognition of the right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);

  - depreciating the right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;

  - inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;

  - application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and

  - additional disclosure requirements.

  The transitional provisions of AASB 16 allow a lease to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity at the date of initial application.

  The directors anticipate that the adoption of AASB 16 will not have a material impact on the Company's financial statements.

- **AASB 2014-10*: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (applicable to annual reporting periods commencing on or after 1 January 2018).**

This Standard amends AASB 10: *Consolidated Financial Statements* with regards to a parent losing control over a subsidiary that is not a “business” as defined in AASB 3: *Business Combinations* to an associate or joint venture and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor’s interest in that associate or joint venture;

- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and

- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor’s interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

Although the directors anticipate that the adoption of AASB 2014-10 may have an impact on the Company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

▪ **AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions* (applicable to annual reporting periods commencing on or after 1 January 2018).**

The AASB issued amendments to AASB 2 *Share-based Payment* that address three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and

- accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application of this amendment is permitted.

The directors anticipate that the adoption of this amendment will not have a material impact on the Company’s financial statements.

▪ ***AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* applicable for annual reporting period commencing 1 January 2018)**

The amendments address concerns arising from implementing the new financial instruments standard, AASB 9, before implementing AASB 17 Insurance Contracts, which replaces AASB 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying AASB 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies AASB 9 and apply that approach retrospectively to financial assets designated on transition to AASB 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying AASB 9. These amendments are not applicable to the Company.

The Financial Statements are prepared using the valuation methods described below for holdings of securities. All other items have been treated in historical cost conventions

**(a) Financial instruments**

Financial instruments are classified as financial assets and financial liabilities at FVTPL in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"*. The category of financial assets and financial liabilities at fair value through profit or loss is sub-divided into:

- *Financial instruments held-for-trading*: Financial assets held-for-trading include equity securities and derivatives. These assets are acquired principally for the purpose of generating a profit from active trading and short-term fluctuation in price. All derivative instruments are classified as held-for-trading. Derivative financial instruments entered into by the Company do not meet the hedge accounting criteria as defined by IAS 39. Consequently, hedge accounting is not applied by the Company.

- *Financial instruments designated as at FVTPL upon initial recognition*: These include equity securities and debt instruments that are not held-for-trading. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company. The financial information about these financial instruments is provided internally on that basis to the Investment Manager and to the Board of Directors.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Loans and receivables in the financial statements comprise of balances with banks.

**Recognition and Measurement**

Financial assets and financial liabilities are initially recognised at cost, being the fair value of the consideration given. All transaction costs for such instruments are recognised in the statement of profit and loss and other comprehensive income. After initial recognition, these investments are remeasured at fair value with both realised and unrealised gains and losses recorded in the statement of profit and loss and other comprehensive income in "income from financial assets and financial liabilities at FVTPL".

Loans and receivables that are not quoted in an active market are stated at original invoice amount less an allowance for any impaired amounts. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or liability.

**Trade Date**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase or sell the asset.

Realised gains and losses on investments are calculated by reference to the net proceeds received on disposal and the average cost attributable to those investments. Unrealised gains and losses are calculated by reference to the fair value and average cost attributable to those investments.

**Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

i. the rights to receive cash flows from the asset have expired;

ii. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay the cash flows received in full without material delay to a third party under a 'pass through' arrangement;

iii. the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities at FVTPL is determined by reference to quoted market bid prices for financial assets and ask prices for financial liabilities at the close of business on the statement of financial position date.

**Impairment**

The Company assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the toss is recognised in profit or loss as a credit loss expense.

**(b) Cash and cash equivalents**

For the purposes of statement of cash flows, cash and cash equivalents comprise of balances with banks, which have original maturities of less than ninety days. Cash and cash equivalents are short-term highly liquid assets that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**(c) Accrued expenses**

Liabilities are recognised for amounts to be paid in the future for services received, whether billed or not. Accrued expenses are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.

**(d) Functional and presentation currency**

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into $AUD at the rate of exchange prevailing at the statement of financial position date. Any gains or losses on translation of monetary assets and liabilities are taken to Recognition and Measurement

Translation gains or losses on investments at FVTPL are included in the statement of comprehensive income under net charges on financial assets and financial liabilities at FVTPL.

**(e) Interest income and expense**

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

**(f) Dividend income**

Dividend is recognised when the right to receive the dividend is established.

**(g) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are offset in the statement of profit and loss and other comprehensive income when it reflects the substance of the transaction or other event.

**(h) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Unless included in the effective interest calculation, fees and commission expenses are recognised on an accrual basis. Legal and audit fees are included within 'general and administrative expenses'.

**(i) Net assets attributable to holders of Participating Shares**

IAS 32 *"Financial Instruments: Presentation" requires entities that issue financial instruments to classify such instruments as liabilities or equity in accord*ance with the substance of the contractual arrangement and the definitions contained within IAS 32 of a financial liability and equity instrument.

The issued by the Company provide the participating shareholders with the right to redeem their shares for cash equal to their proportionate share of the net asset value of the Company. Also, the private placement memorandum ("PPM") allows the Company to issue multiple classes of shares with varying terms on fees and redemption. As such, within the context of IAS 32, the Participating Shares issued by the Company are classified as financial liabilities.

The liability to participating shareholders is presented in the statement of financial position as net assets attributable to holders of Participating Shares" and is determined based on the residual assets of the Company after deducting the Company's other liabilities.

**(j) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception provided in AASB 13 to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**(k) Significant accounting judgments and estimates**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Judgments**

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

**Going concern**

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**Functional currency**

The primary objective of the Company is to generate returns in Australian Dollars ("AUD"), The operation of the Company is managed on a day-to-day basis in AUD. The Company's performance is evaluated in AUD. Therefore, the management considers the AUD as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

**Estimates and assumptions**

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below. The Company based its estimates and assumptions on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

**Fair value of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

The Company's investment in contract for difference requires inputs to the models in order to estimate the fair value of these financial instruments. The valuations of these instruments are provided by the broker considering liquidity and other inputs such as credit risk, correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position. The Directors and management believe that the estimates utilised in arriving at the fair value of these financial instruments are reasonable and prudent; however, actual results could differ from these estimates

| | 2018 | 2017 |
|---|---|---|
| | **$** | **$** |
| **NOTE 4: OPERATING PROFIT BEFORE INCOME TAX EXPENSE** | | |
| **Income from deposits** | | |
| Interest paid | (7,096) | (17,951) |
| Total income from deposits | **(7,096)** | **(17,951)** |
| **Income from Dividends** | | |
| Dividends income | 18,188 | 28,642 |
| Total Income from Dividends | **18,188** | **28,642** |
| **Total revenue** | **11,092** | **10,691** |
| | | |
| **NOTE 5: NET CHANGES TO NET FAIR VALUE OF INVESTMENTS** | | |
| Realised gain/(loss) | 159,537 | 134,864 |
| Unrealised gain/(loss) | (133,412) | (52,585) |
| | **26,125** | **82,279** |
| **NOTE 6: ADMINISTRATION EXPENSES** | **2018** | **2017** |
| Accountancy fees | 12,300 | 12,300 |
| Auditor's remuneration | 5,687 | 14,350 |
| Nomad | - | (1,458) |
| Management fee | 47,328 | 41,683 |
| Share registry fees | 11,554 | 10,190 |
| Tax preparation expense | 2,582 | 2,912 |
| Insurance | 8,489 | 9,124 |
| Compliance | 1,679 | 1,176 |
| Other expenses | 320 | 467 |
| **Total administration expenses** | **89,939** | **90,744** |
| | | |
| **NOTE 7: INCOME TAX EXPENSE** | | |
| | **2018** | **2017** |
| **The components of tax expense comprise** | **$** | **$** |
| Increase in current tax liabilities – other | | |
| Increase in deferred tax liabilities | - | - |
| (Increase) in deferred tax assets - other | 19,072 | 15,776 |
| Tax on equity | (24) | (17,064) |
| | | |
| | **19,048** | **(1,288)** |

| **NOTE 8: CASH AND CASH EQUIVALENTS** | **2018**<br>**$** | **2017**<br>**$** |
|---|---|---|
| Cash at bank | 543,132 | 451,782 |
| | **543,132** | **451,782** |

| |
|---|
| All cash investments are invested with Authorised Deposit Taking Institutions. Only part of the deposits are guaranteed by the Commonwealth of Australia. The credit risk exposure of the company in relation to cash and cash equivalents is the carrying amount and any unpaid accrued interest. |
| |

| NOTE 9: TRADE AND OTHER RECEIVABLES | 2018 $ | 2017 $ |
|---|---|---|
| Dividends receivable | 19,512 | 4,259 |
| Prepaid expenses | 8,786 | 7,534 |
| Interest receivable - bonds | 22,932 | 238 |
| Due from Brokers | 21,030 | - |
| Other receivables | 3,549 | - |
| Goods and services tax refund | 3,865 | 2,182 |
| | **79,674** | **14,213** |
| Receivables are non-interest bearing and unsecured. The credit risk exposure of the company in relation to receivables is the carrying amount. At the reporting date none of the trade and other receivables are past due. | | |
| | | |
| **NOTE 10: FINANCIAL ASSETS** | **2018** | **2017** |
| Financial assets held at fair value through the statement of profit or loss | 2,848,833 | 3,103,169 |

Financial Assets are Exchange-traded securities (equities and options). The credit risk exposure of the company in relation to Financial Assets is the carrying amount.

**Financial liabilities held at fair value through the statement of profit or loss**

| | | |
|---|---|---|
| Measured at fair value through profit or loss | 457,364 | 491,410 |

| | 2018 | 2017 |
|---|---|---|
| **NOTE 11: DEFERRED TAX ASSET AND LIABILITIES** | | |
| The deferred tax asset is made up of the following estimated tax benefits | | |
| **- Tax losses** | 71,640 | 29,185 |
| **- Temporary differences** | 5,834 | 8,298 |
| | **77,474** | **37,483** |
| | | |
| Deferred tax liabilities attributable to: | | |
| **- Temporary differences** | - | - |
| **- Deferred capital gains tax** | 40,023 | 19,072 |
| | **40,023** | **19,072** |

| | 2018 | 2017 |
|---|---|---|
| **NOTE 12: TRADE AND OTHER PAYABLES** | | |
| Interest | 1,711 | 2,023 |
| Accrued Dividends – Short | 2,146 | 2,147 |
| Management fee payable | 7,348 | 11,990 |
| Administration fees payable | 1,853 | 1,853 |

| | | |
|---|---|---|
| Tax Preparation fees payable | 2,518 | 2,400 |
| Audit fee payable | 4,054 | 10,500 |
| Listing Fees Payable | - | - |
| Due to Broker | - | - |
| Other payables | 1,419 | 901 |
| | **21,049** | **31,814** |

| **NOTE 13: EARNINGS PER SHARE** | | | | |
|---|---|---|---|---|
| | | | **2018** | **2017** |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | | | 3,164,115 | 2,743,631 |
| Weighted average number of options outstanding | | | | - |
| Weighted average number of ordinary shares used in calculation of dilutive earnings per share | | | 3,164,115 | 2,743,631 |
| | | | | |
| | | | **$** | **$** |
| **Profit/(Loss)attributable to members of the company** | | | (33,674) | 938 |
| | | | | |
| | | | **Cents** | **Cents** |
| a. | Basic earnings per share | | (1.064) | 0.034 |
| b. | Diluted earnings per share | | (1.064) | 0.034 |
| | | | | |
| | | | | |
| | | | | |
| **NOTE 14: ISSUED CAPITAL** | | | | |
| **Shares** | | | | |
| Movements in issued capital of the company during the financial year were as follows: | | | | |

| **Date** | **Details** | **Ordinary Shares** | **Price** | **Issued Capital** |
|---|---|---|---|---|
| | | **No.** | **$** | **$** |
| **2018** | - | **-** | **-** | **-** |
| | | | | |
| | | | | |
| | | | | |
| **30.06.18** | **Balance** | **3,164,215** | **-** | **3,087,052** |
| | | | | |
| **2017** | | | | |
| 01.07.16 | Balance | 2,640,655 | - | 2,589,864 |
| 19.04.17 | Issue | 523,560 | 0.955 | 500,000 |
| 19.04.17 | Issue costs | | | (2,812) |
| **30.06.17** | **Balance** | **3,164,2 15** | | **3,087,052** |

All ordinary shares rank equally for all purposes of participation in profits or capital of the company. No Options have been exercised in the financial year. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and does not calculate a par value for issued shares.

| **Options** | | | | |
|---|---|---|---|---|
| No options were issued in the year | | | | |

| NOTE 15: AUDITOR'S REMUNERATION | 2018 | 2017 |
|---|---|---|
| Remuneration of the auditor of the company for: | **$** | **$** |
| - auditing and reviewing the financial reports | 11,000 | 14,350 |

**NOTE 16: SEGMENT REPORTING**

**(a) Description of segments**

The Board makes the strategic resource allocations for the Company. The Company has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for the Company's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis.

**(b) Segment information provided to the Board**

The internal reporting provided to the Board for the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards.

The Board considers the Company's net asset backing per share after tax to be a key measure of the Company's performance.

| | **Cents** | **Cents** |
|---|---|---|
| **Net asset backing per share** | 95.78 | 96.85 |

| NOTE: 17 CASH FLOW INFORMATION | 2018 | 2017 |
|---|---|---|
| **a. Reconciliation of cash flow from operations with profit after income tax** | **$** | **$** |
| (Loss)/Profit after income tax | (33,674) | 938 |
| Changes to net fair value of investments | (26,125) | (82,279) |
| (Increase)/decrease in trade and other receivables | (22,081) | (4,145) |
| Increase/(decrease) in trade payables and accruals | (31,395) | 19,738 |
| (Increase)/decrease in taxes | (19,048) | 1,288 |
| **Cash flow from operations** | **(132,323)** | **(64,460)** |

**NOTE 18: RELATED PARTY TRANSACTIONS**

Transactions with related parties.

| Related Party | Ordinary Shares |
|---|---|
| Kaizen Capital Pty Ltd atf Kaizen Capital Recapitalization Fund I | 375,305 |
| **Director: Connor Grindlay** | 50,001 |
| CLG Investments Pty Ltd | 350,000 |
| Lisa Grindlay | 25,000 |
| **Director: Simon Winfield** | 102,356 |
| Jennifer Winfield | 50,000 |
| Georgia Winfield | 5,000 |
| **Director: Andre Edmunds** | 5,000 |
| Edmunds SMSF | 152,356 |
| Jenny Nissen | 5,000 |

Kaizen Global Investments paid $47,328 in management fees to Kaizen Capital Pty Ltd. Kaizen Capital Pty Ltd is a related party of Connor Grindlay.

**NOTE 19: CAPITAL AND RISK MANAGMENT**

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability. The Company is exposed to market risk, credit risk and liquidity risk. The Board of Directors is responsible for overall management of these risks. The Investment Manager's objective is to assess, continuously measure and manage the risks of the portfolio, according to the investment objective; the investment policy and the overall risk profile of the Company.

The nature and extent of the financial instruments outstanding at the statement of financial position date and the risk management policies employed by the Company are discussed below.

***(a) Market risk***
Market risk arises from fluctuations in equity prices, interest rates and foreign exchange rate.

***(i) Price risk***
All investments present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits. The maximum risk resulting from

financial instruments is determined by the fair value of the financial instruments. The Company's overall market positions are monitored on a regular basis by the Company's Investment Manager.

The Company’s financial assets and financial liabilities at FVTPL are susceptible to market price risk arising from uncertainties about future prices of the instruments.

*Price risk sensitivity*
The Manager’s best estimate of the impact on operating profit and shareholders’ equity due to a reasonably possible change in equity indices, with all other variables held constant is indicated in the following table. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in each of the indices shown below would have resulted in an equivalent, but opposite, impact.

| **Financial assets at FVTPL** | **% Change in market price** | **Impact on operating profits/Shareholders equity AUD** | **Impact in % on operating profits/Shareholders equity** |
|---|---|---|---|
| **Market indices** | | | |
| FTSE 100 Index | 5% | 11,371 | 0.38% |
| S&P 500 | 5% | 63,642 | 2.15% |
| Hang Seng Index | 5% | 9,341 | 0.32% |
| S&P/ASX 200 | 5% | 57,381 | 1.94% |
| Swiss market | 5% | - | - |
| Norwegian market | 5% | - | - |
| Canada | 5% | 1,278 | 0.04% |
| Sweden | 5% | (1,903) | -0.06% |
| Euro | 5% | (891) | -0.03% |
| Malaysia | 5% | 13,841 | 0.47% |
| Total change if all indices moved | 5% | **154,060** | **5.21%** |

**(ii) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of the financial instruments. The Company is exposed to interest rate risk only on its balances with banks.

The sensitivity of the Company's profit or loss for the year and the net assets attributable to holders of Participating Shares to a reasonably possible change in interest rates by 25 basis points, with all other variables held constant would have resulted in increase in interest income by AUD 1,406.

A decrease by 25 basis points would result in an equal but opposite effect on interest income to the figure shown above, on the basis that all other variables remain constant.

***(iii) Foreign currency risk***

Foreign currency risk is the risk that the value of a financial instrument denominated in foreign currencies may be affected favourably or unfavourably by fluctuations in currency rates.

The table below indicates the currencies to which the Company had significant exposure at 30 June 2018. The analysis discloses the Investment Manager's best estimate of the effect of a reasonably possible movement of 5% weakening of the Australian dollar against the listed currencies held, with all other variables held constant on the operating profits/Shareholders equity.

| Net currency holding | % change in Australian dollar | Impact on operating profits/AUD |
|---|---|---|
| CAD | 5% | 756 |
| CHF | 5% | 1 |
| EUR | 5% | 870 |
| GBP | 5% | 8,871 |
| HKD | 5% | 2,331 |
| MYR | 5% | 9,065 |
| NOK | 5% | (579) |
| SEK | 5% | (748) |
| USD | 5% | 67,877 |

A strengthening of the Australian dollar by 5% would be expected to have the opposite effect to the table.

***(b) Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company invests its assets in investments that are traded in an active market and can be readily disposed of. The Company's quoted securities are considered readily realisable. The Investment Manager monitors the Company's liquidity position on a daily basis. Credit and liquidity risks are measured prior to making an investment and during the holding period, and is reviewed whenever risk parameters might change or be impacted by internal or external events.

(i) Maturities of non-derivative financial liabilities

| | Less than 1 MONTH | 1-6 MONTHS | 6-12 MONTHS | Over 12 MONTHS | TOTAL |
|---|---|---|---|---|---|
| **30-Jun-18** | **$** | **$** | **$** | **$** | **$** |
| Payables | - | 21,029 | - | - | 21,029 |
| Contractual cash flows (excluding derivatives) | - | 21,029 | - | - | 21,029 |

(ii) Fair value Tier 1-3 asset profile

| $ | Tier 1 | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|
| Assets | 2,248,833 | - | 600,000 | 2,848,833 |

***(c) Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. The main concentration of credit risk, to which the Company is exposed, arises from cash and cash equivalents and amounts due from brokers balances. None of these assets are impaired or past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount disclosed in the Statement of Financial position.

The Company has a policy to maintain balances with reputed banks and brokers to minimise the counterparty risk. Credit risk is measured by the Investment Manager prior to making an investment and during the holding period, and is reviewed whenever risk parameters might change or be impacted by internal or external events.

Substantially all of the assets of the Company are held by the custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Company monitors its risk by monitoring the credit quality and financial positions of the custodian the Company uses.

The Standard and Poor's credit rating on the company's counterparties as 30 June 2018 are:

- Interactive Brokers LLC: BBB+ Outlook stable
- St. George bank Ltd (Westpac Group): Aa2/Stable/P-1 by Moody's Investors service

**(d) Capital Management**

The Company's objective in managing capital and investment is to maximize compound after-tax returns for shareholders by investing in a predominantly global equity portfolio. The Company recognises that its capital position and market price will fluctuate with market conditions, and in order to adjust the capital structure it may vary the amount of dividends paid, issue new shares or options from time to time or buy back its own shares.

A breakdown of the Company's equity and changes in equity during the current year is provided in note 14: Issued capital.

## NOTE 20: DIRECTORS AND EXECUTIVES' DISCLOSURE

In accordance with the *Corporations Amendments Regulation* 2005 (No. 4) the Company has transferred the disclosure required by AASB 1046 from the notes to the Financial Statements to the Directors' Report under the heading 'Remuneration Report'.

## NOTE 21: SUBSEQUENT EVENTS

There are no subsequent events that require disclosure post 30 June 2018.

## DIRECTORS' DECLARATION

In accordance with the resolution of directors of Kaizen Global Investments Limited, the directors of the Company declare that:

1. the financial statements and notes, as set out on pages 22-41, are in accordance with the *Corporations Act 2001* and:
   a. comply with Accounting Standards, which, as stated in accounting policy Note 2 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the period ended on that date of the Company;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. the directors have been given the declarations required by s295A of the *Corporations Act 2001* that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
   b. the financial statements and notes for the financial year comply with Accounting Standards; and
   c. the financial statements and notes for the financial year give a true and fair view; and

This declaration is made in accordance with a resolution of the Board of Directors.

Signed on behalf of the directors by

**CONNOR GRINDLAY**
Director

12 September 2018

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

12 September 2018

Board of Directors
Kaizen Global Investments Limited
Suite 409
350 George Street
Sydney NSW 2000

Dear Sirs

**RE: KAIZEN GLOBAL INVESTMENTS 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 Kaizen Global Investments Limited.

As Audit Director for the audit of the financial statements of Kaizen Global Investments Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

Martin Michalik

**Martin Michalik**
**Director**

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**KAIZEN GLOBAL INVESTMENTS LIMITED**

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of Kaizen Global Investments Limited, the entity, which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the entity is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### *Basis for Opinion*

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

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

***Key Audit Matters***

We have defined the matters described below to be key audit matters to be communicated in our report.

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

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Valuation of Financial Assets and Financial Liabilities**<br><br>Financial assets and financial liabilities represent 80% of total assets and 88% of total liabilities respectively.<br><br>Given the afore mentioned relativity of balances with respect to the total assets and liabilities, the valuation of these financial assets and financial liabilities is considered to be a key audit matter.<br><br>The valuation of financial investments held at fair value is based on a range of inputs. All of the inputs required can be obtained from readily available liquid market prices and rates. | Inter alia, our audit procedures included the following:<br><br>i. We audited the entity's valuation of individual investment holdings. We corroborated the pricing inputs used in the valuation of both financial assets and financial liabilities to independent data sources; and<br><br>ii. We have audited the change in values of both financial assets and financial liabilities to ensure that these changes are reflected correctly on the statement of financial performance. |
| **Existence of Financial Assets and Financial Liabilities**<br><br>Financial assets and financial liabilities represent 80% of total assets and 88% of total liabilities respectively.<br><br>Given the afore mentioned relativity of balances with respect to the total assets and liabilities, the existence of these financial assets and financial liabilities at balance date is considered to be a key audit matter. | Inter alia, our audit procedures included the following:<br><br>i. Verification of holding balances of financial assets and financial liabilities held at balance date to third party broker statements and;<br><br>ii. Discussion with management the nature of financial assets and financial liabilities held at balance date to ensure no omissions. |

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the entity's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

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

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the entity audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 18 to 19 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Kaizen Global Investments Limited for the year ended 30 June 2018 complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

The directors of the entity 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.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

Stantons International Audit & Consulting Pty Ltd

Martin Michalik

**Martin Michalik**
Director

West Perth, Western Australia
12 September 2018