

NAOS ABSOLUTE OPPORTUNITIES  
COMPANY LIMITED

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**NAOS Absolute Opportunities Company Limited**

**ASX Codes : NAC**

**ACN : 169 448 837**

**Appendix 4D**

**Half-year results announcement for the half-year ended 31 December 2016**

***All comparisons unless specified are to the half-year ended 31 December 2015***

	\$	up/down	% change
Revenue from ordinary activities	3,447,460	down	19%
Profit from ordinary activities before tax attributable to members	2,396,632	down	17%
Profit from ordinary activities after tax attributable to members	2,087,281	down	7%
<b>Dividend Information</b>	<b>Cents per share</b>	<b>Franked amount per share</b>	<b>Tax rate for franking</b>
2016 Final dividend	2.50	2.50	30%
2017 Interim dividend	2.50	2.50	30%
<b>Interim Dividend Dates</b>			
Ex-dividend date			10 April 2017
Record date			11 April 2017
Payment date			28 April 2017
<b>Dividend Reinvestment Plan</b>			
The Dividend Reinvestment Plan is in operation and the recommended fully franked interim dividend of 2.5 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.			
	<b>31 December 2016</b>	<b>30 June 2016</b>	
	\$	\$	
(Post-tax) Net tangible asset backing	1.119	1.144	
This report is based on the half-year financial report which has been subject to independent review by the auditors, Deloitte Touche Tohmatsu Australia. All the documents comprise the information required by the Listing Rule 4.2A. This information must be read in conjunction with the 30 June 2016 Annual Financial Report.			

**NAOS Absolute Opportunities Company Limited**

**ACN 169 448 837**

Half-year report for the financial half-year ended 31 December 2016.

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## Directors' Report

The directors of NAOS Absolute Opportunities Company Limited ACN 169 448 837 ("the Company"), submit their half-year report for the Company for the half-year ended 31 December 2016.

### Company Information

#### Directors and Officers

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

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

#### Principal Activities

The Company was constituted on 8 May 2014 to invest primarily in listed investments both domestically and offshore through a long/short structure that can produce positive absolute returns through the cycle with a lower correlation to general equity market movements. The Company can invest in unlisted instruments from time to time.

### Review of Operations

#### Results

The results of the operations of the Company are disclosed in the Condensed Statement of Profit or Loss and Other Comprehensive Income included in these financial statements. The results and dividends for the half-year ended 31 December 2016 were as follows:

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Profit before income tax expense	2,396,632	2,886,431
Income tax expense	(309,351)	(635,911)
<b>Profit for the period attributable to members</b>	<b>2,087,281</b>	<b>2,250,520</b>

### Dividends Paid or Payable

#### Half year ended 31 December 2016

	Date Declared	Ex-date	Dividend (cents per share)	Total amount (\$)	% Franked
2016 Final dividend	25 August 2016	11 November 2016	2.50	1,025,454	30%

#### Half year ended 31 December 2015

	Date Declared	Ex-date	Dividend (cents per share)	Total amount (\$)	% Franked
2015 Final dividend	28 August 2015	21 October 2015	2.00	430,000	30%

**Net Tangible Assets**

As at 31 December 2016 and 30 June 2016, the net tangible assets of the Company were:

	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Net tangible assets as at fair value	48,105,465	32,082,388
Undiluted NTA per share (pre-tax)	1.14	1.19
Undiluted NTA per share (post-tax)	1.12	1.14
Diluted NTA per share (pre-tax)*	1.14	1.12
Diluted NTA per share (post-tax)*	1.12	1.09

\*As at 31 December 2016 no options remained outstanding (30 June 2016: 14,961,250).

**Significant Changes in State of Affairs**

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

**Subsequent Events**

There has been no other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

**Environmental Regulation and Performance**

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

**Indemnification of Directors, Officers and Auditors**

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

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

**Rounding**

The amounts contained in this report and in the financial statements have not been rounded to the nearest thousand dollars under the option available to the Company under ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191. The company is an entity to which the legislative instrument applies.

***Auditor's Independence Declaration***

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 4.

This directors' report is signed in accordance with a resolution of directors of the Company made pursuant to Section 306(3) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'S Evans', with a stylized flourish at the end.

Sebastian Evans

Director

13 February 2017

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

13 February 2017

Dear Directors,

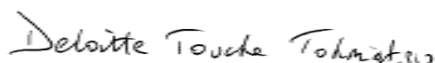
**Naos Absolute Opportunities Company Limited**

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

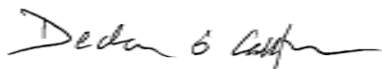
As lead audit partner for the review of the financial statements of Naos Absolute Opportunities Company Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan  
Partner  
Chartered Accountants

# **Independent Auditor's Review Report to the Shareholders of NAOS Absolute Opportunities Company Limited**

We have reviewed the accompanying half-year financial report of NAOS Absolute Opportunities Company Limited (the "Company"), which comprises the condensed statement of financial position as at 31 December 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration as set out on pages 7 to 18.

## *Directors' Responsibility for the Half-Year Financial Report*

The directors of NAOS Absolute Opportunities Company Limited are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of NAOS Absolute Opportunities Company Limited's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the NAOS Absolute Opportunities Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

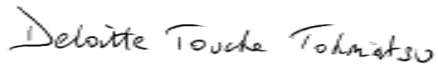
## *Auditor's Independence Declaration*

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

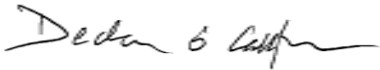
## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the NAOS Absolute Opportunities Company Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 13 February 2017

# Condensed Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2016

	Note	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
<b>Income</b>	3	3,447,460	4,242,182
<b>Expenses</b>			
Interest expense		-	(144,783)
Dividend expense - short sales		(5,969)	(99,180)
Management fees		(396,261)	(213,769)
Performance fees		(403,611)	(610,860)
Administration fees		(24,733)	(18,088)
Directors' remuneration		(22,181)	(22,120)
Other expenses	5	(198,073)	(246,951)
<b>Profit before income tax expense</b>		<b>2,396,632</b>	<b>2,886,431</b>
Income tax expense		(309,351)	(635,911)
<b>Profit for the half-year attributable to shareholders of the Company</b>		<b>2,087,281</b>	<b>2,250,520</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the half-year attributable to shareholders of the Company</b>		<b>2,087,281</b>	<b>2,250,520</b>
<b>Basic earnings per share (cents per share)</b>		<b>5.80</b>	<b>10.46</b>
<b>Diluted earnings per share (cents per share)</b>		<b>5.80</b>	<b>5.23</b>

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

# Condensed Statement of Financial Position as at 31 December 2016

	Note	31 December 2016 \$	30 June 2016 \$
<b>Assets</b>			
Cash and cash equivalents		8,410,114	2,169,251
Trade and other receivables		400,801	8,227,271
Financial assets at fair value through profit or loss	6	44,013,174	30,810,244
Deferred tax assets		493,167	353,048
<b>Total assets</b>		<b>53,317,256</b>	<b>41,559,814</b>
<b>Liabilities</b>			
Bank overdraft		520,805	2,058,807
Trade and other payables		670,015	3,708,717
Financial liabilities at fair value through profit or loss	6	2,454,000	2,140,670
Provision for income tax		-	451,731
Deferred tax liabilities		1,566,971	1,117,501
<b>Total liabilities</b>		<b>5,211,791</b>	<b>9,477,426</b>
<b>Net assets</b>		<b>48,105,465</b>	<b>32,082,388</b>
<b>Equity</b>			
Issued capital - Ordinary shares	7	43,000,000	26,740,114
Share option reserve	8	-	1,298,636
Retained earnings	8	-	-
Profits reserve	8	5,105,465	4,043,638
<b>Total equity</b>		<b>48,105,465</b>	<b>32,082,388</b>

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

## Condensed Statement of Changes in Equity for the half-year ended 31 December 2016

	Note	Issued capital \$	Share option reserve \$	Retained earnings \$	Profits reserve \$	Total \$
<b>Balance at 1 July 2015</b>		<b>19,633,800</b>	<b>1,866,200</b>	<b>1,111,350</b>	-	<b>22,611,350</b>
Profit for the half-year		-	-	2,250,520	-	2,250,520
Other comprehensive income for the half-year		-	-	-	-	-
<b>Total comprehensive income for the half-year</b>		-	-	<b>2,250,520</b>	-	<b>2,250,520</b>
Dividend paid		-	-	(430,000)	-	(430,000)
Share option exercise		7,500	-	-	-	7,500
Transfer to profits reserve		-	-	(2,931,870)	2,931,870	-
Transfer from share option reserve		651	(651)	-	-	-
<b>Balance at 31 December 2015</b>	7	<b>19,641,951</b>	<b>1,865,549</b>	-	<b>2,931,870</b>	<b>24,439,370</b>
<b>Balance at 1 July 2016</b>		<b>26,740,114</b>	<b>1,298,636</b>	-	<b>4,043,638</b>	<b>32,082,388</b>
Profit for the half-year		-	-	2,087,281	-	2,087,281
Other comprehensive income for the half-year		-	-	-	-	-
<b>Total comprehensive income for the half-year</b>		-	-	<b>2,087,281</b>	-	<b>2,087,281</b>
Dividend paid		-	-	-	(1,025,454)	(1,025,454)
Share option exercise		14,961,250	-	-	-	14,961,250
Transfer from share option reserve		1,298,636	(1,298,636)	-	-	-
Transfer to profits reserve		-	-	(2,087,281)	2,087,281	-
<b>Balance at 31 December 2016</b>	7	<b>43,000,000</b>	-	-	<b>5,105,465</b>	<b>48,105,465</b>

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

**Condensed Statement of Cash Flows for the half-year ended 31 December 2016**

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Note		
<b>Cash flows from operating activities</b>		
Dividends received	1,412,304	853,890
Interest received	34,864	134,504
Interest paid	(15,071)	(134,136)
Management and performance fees paid	(1,461,286)	(389,574)
Directors' remuneration paid	-	(5,530)
Income tax paid	(253,944)	(399,546)
Dividends paid - short sales	(49,612)	(128,393)
Custody fee paid	(27,750)	(30,000)
Audit fee paid	(29,464)	(26,415)
Registry service paid	(25,695)	(14,398)
ASX fee paid	(36,345)	(33,130)
AGM fee paid	(18,977)	(21,843)
Admin and tax service fee paid	(30,312)	(23,817)
Broker fee paid	(27,531)	(84,802)
Goods and services tax paid	44,793	(30,102)
Other receipts	-	2,346
Other payments	(39,797)	(51,074)
<b>Net cash used in operating activities</b>	<b>(523,823)</b>	<b>(382,020)</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of investments	(82,125,529)	(74,192,502)
Proceeds from sale of investments	76,404,677	69,469,285
<b>Net cash used in investing activities</b>	<b>(5,720,852)</b>	<b>(4,723,217)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(937,710)	(358,025)
Receipts from option exercise	14,961,250	7,500
<b>Net cash provided by/(used in) financing activities</b>	<b>14,023,540</b>	<b>(350,525)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>7,778,865</b>	<b>(5,455,762)</b>
Cash and cash equivalents at the beginning of the half-year (including bank over-draft)	110,444	4,035,321
<b>Cash and cash equivalents / (Bank overdraft) at the end of the half-year</b>	<b>7,889,309</b>	<b>(1,420,441)</b>
<b>Non cash activities - reinvestments under dividend reinvestment plan</b>	<b>-</b>	<b>-</b>

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

## Notes to the Condensed Financial Statements

### General Information

NAOS Absolute Opportunities Company Limited (the “Company”) is a Public Company listed on the Australian Securities Exchange (ASX:NAC) registered and domiciled in Australia. The Company was constituted on 8 May 2014 and commenced operations on 12 November 2014.

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

NAOS Asset Management Limited (the “Investment Manager”) is the investment manager of the Company. The financial statements were authorised for issue by the Directors on 13 February 2017.

### 1. Summary of Significant Accounting Policies

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

#### *a) Basis of Preparation*

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

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

The condensed Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and net assets attributable to shareholders. The amounts expected to be received or settled in relation to these balances cannot be readily determined.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations described in note 2. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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

#### *b) Statement of Compliance*

The half-year report is a general purpose financial report in accordance with the Corporations Act 2001 and AASB 134 ‘Interim Financial reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (“IFRS”) IAS 34 ‘Interim Financial reporting’. A typical half-year report does not include notes of the type normally included in an annual report and should be read in conjunction with the annual report.

#### *c) Details of reporting half-year*

The current reporting period is the half year ended 31 December 2016. For the condensed Statement of Profit or Loss and Other Comprehensive Income, condensed Statement of Changes in Equity and the condensed Statement of Cash Flow, the previous corresponding period is the half-year ended 31 December 2015. For the condensed Statement of Financial Position, the previous corresponding date is 30 June 2016.

## Notes to the Condensed Financial Statements

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

#### *d) Share Option Reserve*

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

At the end of the Option period (30 November 2016), the amount relating to unexercised Options residing in the share option reserve, was transferred to Issued capital.

#### *e) Reporting Currency*

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

#### *f) Going Concern Basis*

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

### 2. Adoption of New and Revised Accounting Standards

#### *a) Standards and Interpretations adopted in the current period*

The following new and revised Standards and Interpretations have been adopted in the current half-year period.

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

- The amendments to AASB 7 Financial Instruments: Disclosures remove the requirement to provide disclosures relating to offsetting financial assets and financial liabilities in interim financial reports and provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets
- The amendments to AASB 134 Interim Financial Reporting make provision for disclosures required by the Standard to be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

- The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with AASB 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no effect on the Company's consolidated financial statements.

## Notes to the Condensed Financial Statements

## 3. Income

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Unrealised gains on financial assets held at fair value through profit or loss	1,878,830	2,693,892
Realised gains on financial assets held at fair value through profit or loss	585,710	584,100
Interest income	39,029	134,516
Dividend income	943,891	829,674
<b>Total income</b>	<b>3,447,460</b>	<b>4,242,182</b>

## 4. Dividend Paid or Payable

## Half year ended 31 December 2016

	Date Declared	Ex-date	Dividend (cents per share)	Total amount (\$)	% Franked
2016 Final dividend	25 August 2016	11 November 2016	2.50	1,025,454	30%

## Half year ended 31 December 2015

	Date Declared	Ex-date	Dividend (cents per share)	Total amount (\$)	% Franked
2015 Final dividend	28 August 2015	21 October 2015	2.00	430,000	30%

## 5. Other Expenses

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Annual general meeting fees	18,701	17,445
Australian stock exchange fees	21,146	(9,962)
Auditor's remuneration	22,636	7,600
Brokerage fees	19,300	89,794
Custody fees	30,083	30,000
Insurance fees	16,240	13,640
Legal fees	12,833	14,467
Other fees	30,780	70,397
Registry fees	26,354	13,570
<b>Total other expenses</b>	<b>198,073</b>	<b>246,951</b>

## Notes to the Condensed Financial Statements

## 6. Investments in Financial Instruments

*a) Financial assets at fair value through profit or loss*

	31 December 2016 \$	30 June 2016 \$
Investment in listed equity securities	44,013,174	29,385,814
Investment in listed corporate bonds	-	1,424,430
<b>Total financial assets at fair value through profit or loss</b>	<b>44,013,174</b>	<b>30,810,244</b>

*b) Financial liabilities at fair value through profit or loss*

	31 December 2016 \$	30 June 2016 \$
Investment in listed equity securities - short sales	2,454,000	2,140,670
<b>Total financial liabilities at fair value through profit or loss</b>	<b>2,454,000</b>	<b>2,140,670</b>

*c) Disclosed fair values*

For all financial instruments their carrying value approximates fair value.

*d) Fair Value Hierarchy*

AASB 13 ("Fair value Measurement") requires entities to provide disclosures in their financial report that enable users to evaluate the significance of financial instruments for the entity, and the nature and extent of risks arising from financial instruments to which the entity is exposed to. Below is an analysis of the financial instruments of the Company.

**Level 1:**

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

**Level 2:**

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

**Level 3:**

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

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

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

## Notes to the Condensed Financial Statements

## 6. Investments in Financial Instruments (continued)

## d) Fair Value Hierarchy (continued)

## Financial Assets at Fair Value through Profit or Loss

	31 December 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Listed equities	44,013,174	-	-	44,013,174
<b>Total financial assets designated at fair value through profit or loss</b>	<b>44,013,174</b>	<b>-</b>	<b>-</b>	<b>44,013,174</b>

	30 June 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Listed equities	29,385,814	-	-	29,385,814
Listed corporate bonds	1,424,430	-	-	1,424,430
<b>Total financial assets designated at fair value through profit or loss</b>	<b>30,810,244</b>	<b>-</b>	<b>-</b>	<b>30,810,244</b>

	31 December 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial liabilities</b>				
Listed equities - short sales	2,454,000	-	-	2,454,000
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>2,454,000</b>	<b>-</b>	<b>-</b>	<b>2,454,000</b>

	30 June 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial liabilities</b>				
Listed equities - short sales	2,140,670	-	-	2,140,670
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>2,140,670</b>	<b>-</b>	<b>-</b>	<b>2,140,670</b>

There were no transfers between levels 1, 2 and 3 during the year (30 June 2016: None). The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

## Notes to the Condensed Financial Statements

## 6. Investments in Financial Instruments (continued)

## d) Fair Value Hierarchy (continued)

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

## Level 1

The fair value of financial instruments that are traded in an active market (for example, listed equities) is determined using the last traded quoted price in an active market. As at 31 December 2016 the Company had \$44,013,174 (30 June 2016: \$30,810,244) financial assets held at fair value through profit or loss included in level 1. As at 31 December 2016 the Company also had \$2,454,000 (30 June 2016: \$2,140,670) financial liabilities held at fair value through profit or loss included in level 1.

## Level 2

The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 31 December 2016 the Company had \$ nil (30 June 2016: \$ nil) financial instruments in level 2.

## Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at 31 December 2016 the Company had \$ nil (30 June 2016: \$ nil) financial instruments held at fair value through profit or loss included in level 3.

## 7. Issued Capital

	31 December 2016		30 June 2016	
	No. of shares	\$	No. of shares	\$
Issued and paid up capital - Ordinary shares	43,000,000	43,000,000	28,038,750	26,740,114

## Movements in Ordinary Share Capital

Date	Details	Issue price	
		No. of shares	\$
01 July 2015	Opening balance	21,500,000	19,633,800
	Share option exercise (Listed options \$1.00 Exp 30 Nov 2016)	7,500	7,500
	Dividend reinvestment	-	-
	Share option reserve	-	651
31 December 2015	Closing balance	21,507,500	19,641,951
01 July 2016	Opening balance	28,038,750	26,740,114
	Share option exercise (Listed options \$1.00 Exp 30 Nov 2016)	14,961,250	14,961,250
	Dividend reinvestment	-	-
	Share option reserve	-	1,298,636
31 December 2016	Closing balance	43,000,000	43,000,000

## Notes to the Condensed Financial Statements

## 8. Reserves

*a) Retained Earnings*

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Opening balance	-	1,111,350
Net profit attributable to members of the Company	2,087,281	2,250,520
Dividends paid	-	(430,000)
Transfer to profits reserve	(2,087,281)	(2,931,870)
<b>Balance at the end of the half-year</b>	<b>-</b>	<b>-</b>

The current period profits and retained earnings at the end of 31 December 2016 were transferred to profits reserve. This amount is preserved for future dividend payments.

*b) Share Option Reserve*

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Opening balance	1,298,636	1,866,200
Transferred to issued capital	(1,298,636)	(651)
<b>Balance at the end of the half-year</b>	<b>-</b>	<b>1,865,549</b>

*c) Profits Reserve*

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Opening balance	4,043,638	-
Dividends paid	(1,025,454)	-
Transfer from Retained Earnings	2,087,281	2,931,870
<b>Balance at the end of the half-year</b>	<b>5,105,465</b>	<b>2,931,870</b>

## 9. Segment Information

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

## 10. Commitments and Contingencies

There are no commitments or contingencies at 31 December 2016 (30 June 2016: \$ nil).

## Notes to the Condensed Financial Statements

## 11. Key management personnel and related party information

Remuneration arrangements of key management personnel are disclosed in the 2016 annual financial report.

	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$
Directors' remuneration	22,181	22,120
<b>Total Directors' remuneration</b>	<b>22,181</b>	<b>22,120</b>

**Management Fees**

In return for the performance of its duties as investment manager of the Company, the Investment Manager is entitled to be paid a monthly management fee equal to 0.146% (excluding GST) of the gross value of the portfolio calculated on the last business day of each month representing an annualised management fee of 1.75% (excluding GST) per annum of the average gross value of the portfolio. At its discretion and subject to shareholder approval, the Investment Manager may elect to be paid in shares.

The following management fees were paid or payable to the Investment Manager during the half-year ended 31 December 2016:

- Management fees of \$396,261 (for the half year ended 31 December 2015: \$213,769) (excluding GST and RITC\*) were incurred during the half-year
- Management fees payable at 31 December 2016 amounted to \$79,658 (for the half-year ended 31 December 2015: \$41,246) (including GST and RITC\*).

**Performance Fees**

In the event that the portfolio outperforms the Benchmark, the Company must pay the Investment Manager a performance fee equal to 20% (excluding GST) per annum of the amount the portfolio outperforms the Benchmark, which is the RBA cash rate plus 250 basis points, limited to a maximum value of 8% per annum. No performance fee is payable if the portfolio underperforms the Benchmark Index. Any underperformance to the Benchmark Index is carried forward to future performance calculation periods and must be recouped before the Investment Manager is entitled to a performance fee. At its discretion and subject to shareholder approval, the Investment Manager may elect to receive the performance fee in shares.

The following performance fees were paid or payable to the Investment Manager during the half-year ended 31 December 2016:

- Performance fees of \$403,611 (for the half year ended 31 December 2015: \$610,860) (excluding GST and RITC\*) were incurred during the half-year.
- Performance fees payable at 31 December 2016 amounted to \$433,144 (for the half-year ended 31 December 2015: \$655,557) (including GST and RITC\*).

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

## 12. Subsequent Events

There has been no other matter or circumstance occurring subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## Directors' Declaration

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

In the opinion of the Directors:

- the financial statements and notes are in accordance with the Corporations Act 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the half-year ended 31 December 2016; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'S Evans', with a stylized flourish at the end.

Sebastian Evans

Director

13 February 2017

## Corporate Information

### Directors

David Rickards (Independent Chairman)  
Warwick Evans (Director)  
Sebastian Evans (Director)

### Company Secretary

Sebastian Evans

### Registered Office

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

### Investment Manager

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

### Share Registry

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

### Auditor

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000