

NAOS SMALL CAP
OPPORTUNITIES
COMPANY LIMITED

(ASX: NSC)

ABN 47 107 617 381



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NAOS Small Cap Opportunities Company Limited

ASX Code: NSC ACN: 107 617 381

Appendix 4E | Results for Announcement to the Market

Results Announcement for the year ended 30 June 2021

All comparisons are to the year ended 30 June 2020

	\$'000	up/down	% change
Revenue from ordinary activities	76,174	up	1,050%
Profit from ordinary activities before tax attributable to shareholders	71,118	up	5,321%
Profit from ordinary activities after tax attributable to shareholders	51,527	up	3,549%
Dividend Information	Cents per share	Franked amount per share	Tax rate for franking
2021 Final quarterly dividend	1.25	1.25	30%
2021 First quarterly dividend	1.25	1.25	30%
2021 Second quarterly dividend	1.25	1.25	30%
2021 Third quarterly dividend	1.25	1.25	30%
Final Dividend Dates			
Ex-dividend date			31 August 2021
Record date			1 September 2021
Last date for DRP election			2 September 2021
Payment date			20 September 2021
Dividend Reinvestment Plan			
The Dividend Reinvestment Plan is in operation and the recommended fully franked final quarterly dividend of 1.25 cents per share qualifies. The plan will be in effect per the latest dividend reinvestment rules.			
	30 June 2021	30 June 2020	
	\$	\$	
(Post Tax) Net tangible asset backing per share	1.02	0.73	
This report is based on the annual report which has been subject to independent audit by the auditors, Deloitte Touche Tohmatsu Australia. The audit report is included with the Company's Annual Report, which accompanies this Appendix 4E. All the documents comprise the information required by the Listing Rule 4.3A.			

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NSC

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NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ANNUAL REPORT 2021

ACN 107 617 381

NSC

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KEY DATES

2021 ANNUAL GENERAL MEETING

Thursday 11 November 2021

NAOS Small Cap Opportunities Company Limited advises that its Annual General Meeting (AGM) will be held at 12.00 pm (AEDT) on Thursday 11 November 2021 at The State Library of New South Wales, 1 Shakespeare Place, Sydney NSW 2000.

Further details relating to the AGM will be advised in the Notice of Meeting to be sent to all shareholders and released to the ASX immediately after dispatch.

In accordance with the ASX Listing Rules, valid nominations for the position of Director are required to be lodged at the registered office of the Company no later than 5.00 pm (AEST) on 16 September 2021.

Q1 FY22 INVESTOR UPDATE WEBINAR

Tuesday 26 October 2021

Please add the NAOS Q1 FY22 quarterly webinar to your calendar, when the investment team will provide an update on our Listed Investment Companies (LICs). The discussion will include an insight into our investment philosophy and process, notable market events, and an analysis of some of the core investments and potential catalysts.

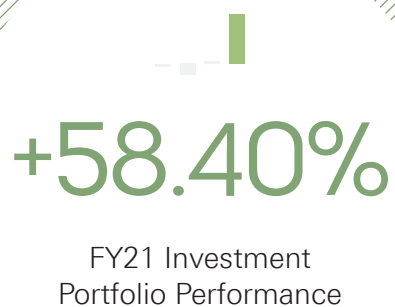
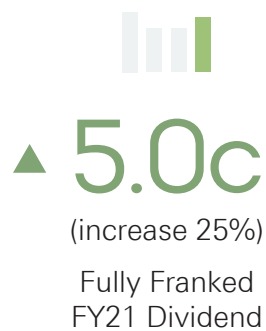
Please look out for more information and your invitation to register via email closer to the date. We hope you will be able to join us.

FY21 FINAL QUARTERLY DIVIDEND DATES

Ex-Date:	Tuesday 31 August 2021
Record Date:	Wednesday 1 September 2021
Last Date for DRP Election:	Thursday 2 September 2021
Payment Date:	Monday 20 September 2021

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

NAOS Small Cap Opportunities Company Limited (ASX: NSC) seeks to protect investor capital whilst providing a sustainable, growing stream of dividends franked to the maximum extent possible, and long-term investment performance above the benchmark index, being the S&P/ASX Small Ordinaries Accumulation Index (XSOAI).



INVESTMENT PORTFOLIO PERFORMANCE AS AT 30 JUNE 2021

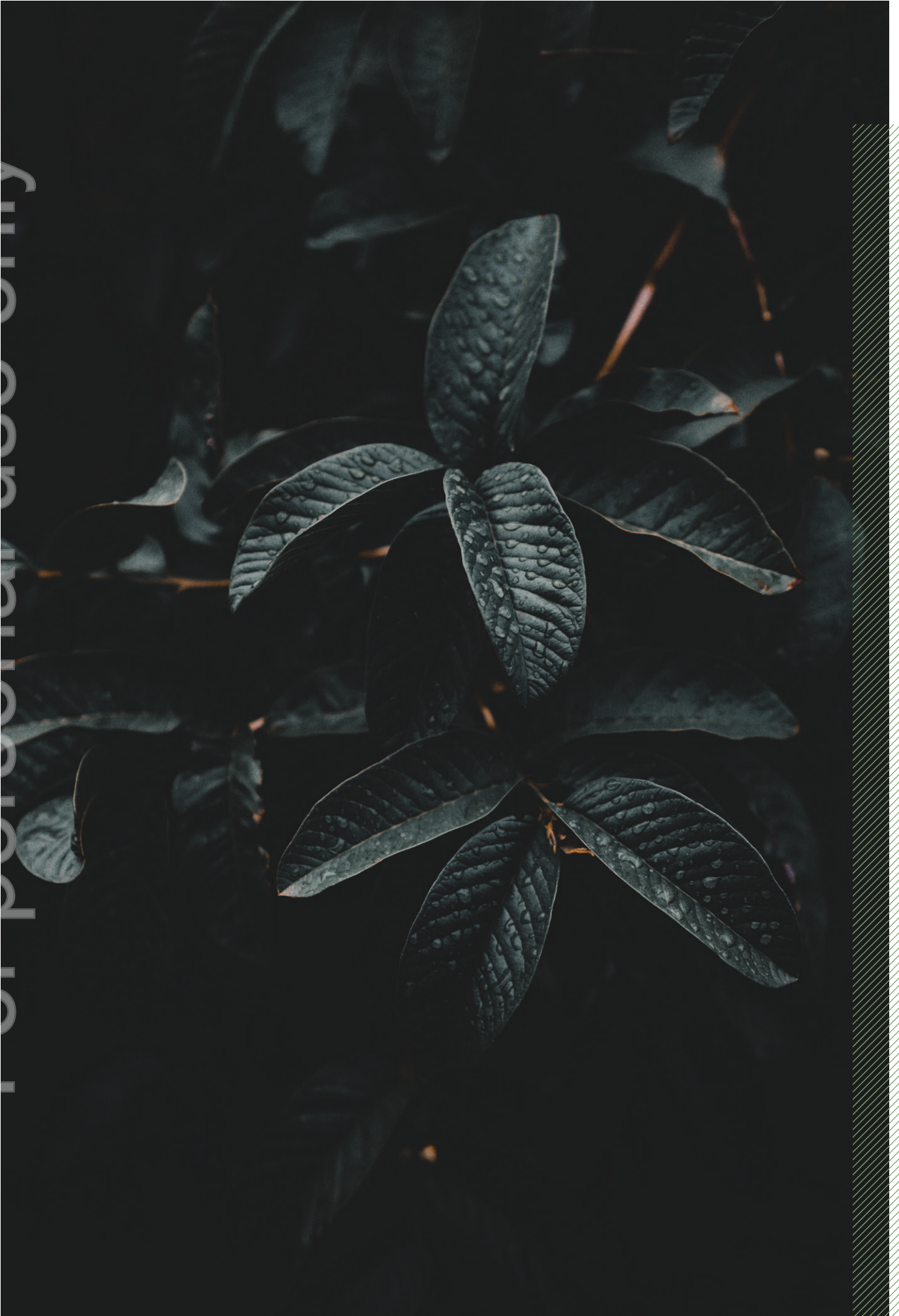
	1 Month	6 Months	1 Year	2 Years (P.A.)	3 Years (P.A.)	Inception (P.A.)	Inception (P.A.) (Total Return)
NSC Investment Portfolio Performance*	+0.32%	+33.56%	+58.40%	+27.45%	+12.11%	+8.98%	+36.06%
S&P/ASX Small Ordinaries Accumulation Index	+3.08%	+10.76%	+33.23%	+12.10%	+8.60%	+9.49%	+38.37%
Performance Relative to Benchmark	-2.76%	+22.80%	+25.17%	+15.35%	+3.51%	-0.51%	-2.31%

* Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders. Inception date is 1 December 2017. Returns compounded for periods greater than 12 months.

KEY METRICS AS AT 30 JUNE 2021

Pre-tax Net Tangible Assets per Share	\$1.10
Post-tax Net Tangible Assets per Share	\$1.02
Fully Franked FY21 Dividend	5.0 cents
Fully Franked FY21 Dividend Yield	5.10%
Share Price	\$0.98
Shares on Issue	153,236,253
Option Price	\$0.07
Options on Issue (ASX: NSCOA)	50,956,489
Directors' Shareholding	2,285,956
Pre-tax Gross Assets	\$196.16 million

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BOARD OF DIRECTORS

TREVOR CARROLL *Independent Chairman*



Trevor Carroll has been a Director of the Company since 27 March 2017 and was appointed Chairman on 26 October 2017.

Trevor was formerly Australian and New Zealand CEO of Electrolux Home Products. With over 30 years' experience in consumer-focused product strategy, brand marketing and manufacturing, Trevor's experience extends to membership of the Electrolux Global Product Council, which is responsible for product development worldwide.

Following his retirement as CEO, Trevor undertook a role in Shanghai advising Electrolux China on product strategy. In recent years, Trevor has been a director of The Good Guys, Fusion Retail Brands, Big Sister Foods Group, and Crane Group.

He is an emeritus member of the Australian Industry Group Board, where he was National President between 2006 and 2008. Trevor holds a Bachelor of Commerce from Canterbury University (NZ).

WARWICK EVANS *Director*



Warwick Evans has been a Director of the Company since 20 October 2017. Warwick is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and NAOS Asset Management Limited, the Investment Manager.

Warwick has over 35 years of equity market experience, most notably as Managing Director for Macquarie Equities (globally) from 1991 to 2001, and as an executive director for Macquarie Group. He was founding Chairman and CEO of the Newcastle Stock Exchange (NSX) and was also Chairman of the Australian Stockbrokers Association. Prior to these positions, Warwick was an executive director at County NatWest.

Warwick holds a Bachelor of Commerce from the University of New South Wales majoring in economics.

DAVID RICKARDS *Independent Director*



David Rickards has been an Independent Director of the Company since 28 February 2018. David is also an Independent Director and Chairman of NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC). He is also Co-founder of Social Enterprise Finance Australia Limited (Sefa) and until recently, he was a director and treasurer of Bush Heritage Australia.

David has over 25 years of equity market experience, most recently as an executive director at Macquarie Group where David was head of equities research globally, as well as equity strategy since 1989 until he retired in mid-2013. David was also a consultant for the financial analysis firm Barra International.

David holds a Master of Business Administration from the University of Queensland majoring in accounting and finance. He also has a Bachelor of Engineering (Civil Engineering) and a Bachelor of Engineering (Structural Engineering) from the University of Sydney, and a Bachelor of Science (Pure Mathematics and Geology).

SEBASTIAN EVANS *Director*



Sebastian Evans has been a Director of the Company since 20 October 2017. Sebastian is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and has held the positions of Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager, since 2010.

Sebastian is the CIO across all investment strategies. He holds a Master of Applied Finance (MAppFin) majoring in investment management as well as a Bachelor of Commerce majoring in finance and international business, a Graduate Diploma in Management from the Australian Graduate School of Management (AGSM) and a Diploma in Financial Services.

CHAIRMAN'S LETTER

Dear fellow shareholders,

On behalf of the Board, it is with pleasure I present the NAOS Small Cap Opportunities Company Limited Annual Report for the financial year ended 30 June 2021. I would like to thank all shareholders for your continued support and welcome the 597 new shareholders who joined the Company during the 2021 financial year.

Although the initial onset of the COVID-19 pandemic presented challenges to the Company in FY20, I am pleased to report that for the financial year ending 30 June 2021, the Company achieved a record after-tax profit of \$51.5 million (FY20: after-tax profit \$1.4 million). The Board has declared a fully franked final quarterly dividend of 1.25 cents per share, bringing FY21 fully franked dividends to 5.0 cents per share, which represents a 25% increase on the prior year. This represents a net dividend yield of 5.1% based on the 30 June 2021 share price. Since its inception in December 2017, the Company has now declared an aggregate 18.50 cents per share of fully franked dividends.

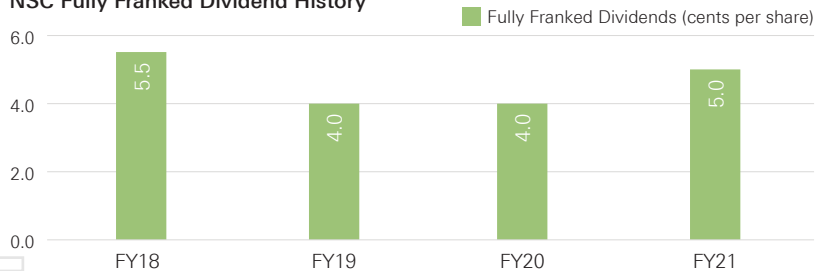
The Company will continue to focus on delivering a growing stream of quarterly dividends, franked to the maximum extent possible, whilst maintaining an adequate profit reserve balance to enable the Company to pay dividends when it is more difficult to generate significant performance. The profit reserve balance at year end was \$32.79 million or 21.4 cents per share.

The NSC Investment Portfolio returned a record financial year return of +58.40%, significantly outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI), which delivered a return of +33.23% in an exceptionally strong year for domestic equities.

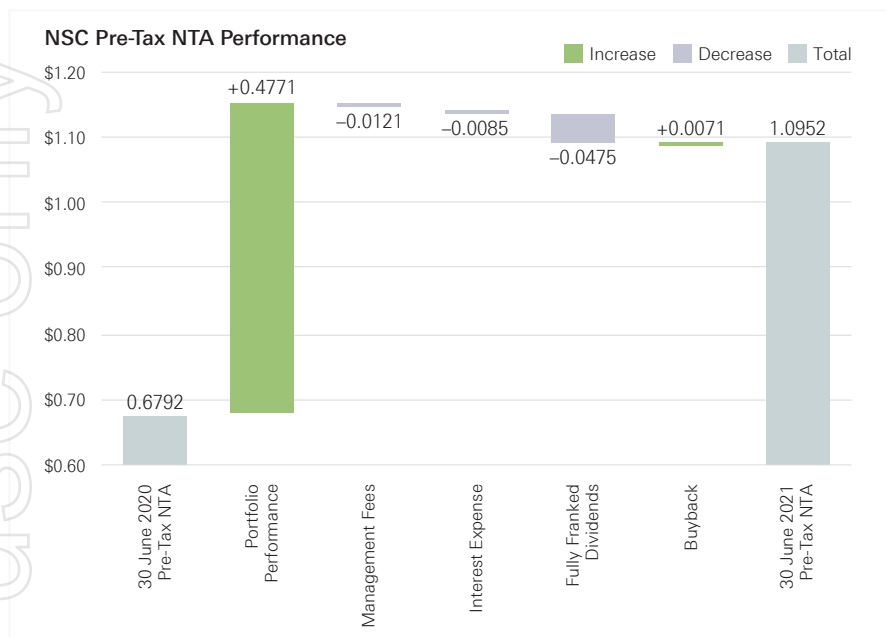


TREVOR CARROLL
Independent Chairman

NSC Fully Franked Dividend History



The pre-tax Net Tangible Asset (NTA) backing per share of the Company increased from \$0.68 to \$1.10 over the financial year, with positive performance of the investment portfolio increasing NTA per share by 47.7 cents over the year. During the year, 4.75 cents per share was paid to shareholders in fully franked dividends, and management fees and interest expense on borrowings decreased the NTA by 1.21 cents per share and 0.85 cents per share respectively. The share buyback was also a positive contributor to the Company's NTA, adding 0.71 cents per share.

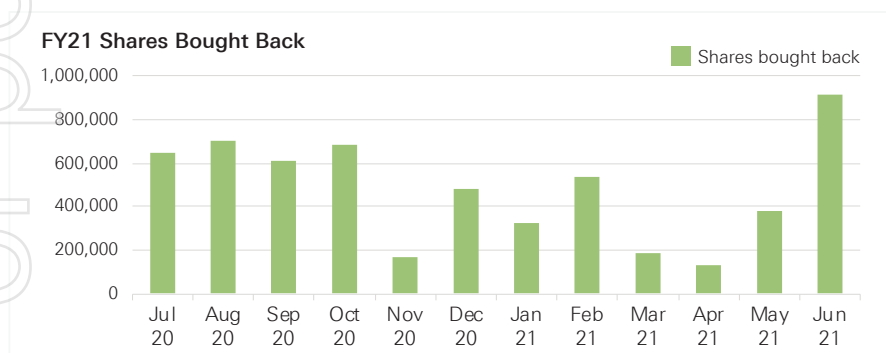


The strong investment performance has been reflected in the Company's share price, allowing the Company's Total Shareholder Return (TSR), which measures the change in the share price and dividends paid over the financial year, to return +132.6%. This measure does not include the benefit of franking credits received by shareholders. The TSR for the year is reflective of both the strong investment performance and the significant reduction in the share price discount to NTA over the course of the year. The NSC share price closed the financial year at \$0.98, having ended FY20 at \$0.45 cents.

The Board remains committed to managing the capital base of the Company in a manner to maximise shareholder returns including:

- **On-market share buyback** – Over the course of the financial year, 5.78 million shares were bought back by the Company, and the Company has now bought back 15.96 million shares, or 9.45% of shares on issue since the buyback commenced in April 2019. The Board renewed the on-market buyback facility for a further 12 months in April 2021, as the buyback of shares at a discount is accretive to NTA and thus of benefit to all shareholders.

"The strong investment performance has been reflected in the Company's share price, allowing the Company's Total Shareholder Return (TSR), which measures the change in the share price and dividends paid over the financial year, to return +132.6%."



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

In May 2021, the Board of NSC announced a 1-for-3 issue of bonus options to eligible shareholders. A total of 51.44 million bonus options were issued with an exercise price of \$1.02 per option. The Board believes that the issue of bonus options is a measured way to allow the Company to grow over the next three years without placing undue pressure on the short-term performance and dividend reserves of the Company. The options are listed on the ASX under the code ASX: NSCOA with an exercise price of \$1.02 and expiry date of 28 June 2024.

The Company maintained a focus on a high standard of marketing and communications so that all current and prospective shareholders have a clear understanding of the NAOS offering. Quarterly investor webinars are delivered to all shareholders along with regular email shareholder updates, which are sent to all current and prospective shareholders on the database, which totals over 11,000 subscribers.

While equity markets may remain vulnerable to short-term corrections, it is the opinion of the Board that the disciplined NAOS investment philosophy will continue to generate strong performance for shareholders over the medium term. The Board continues to have a strong alignment with its shareholders, increasing cumulative holdings during the year to 2.29 million shares.

On behalf of the Board of Directors, I would like to congratulate the Investment Manager for its strong FY21 investment performance and thank them for their dedication throughout the year.



Trevor Carroll
Independent Chairman

19 August 2021

INVESTMENT MANAGER'S REVIEW

Dear fellow shareholders,

The NSC Investment Portfolio recorded its strongest year since inception in 2017, returning +58.40% for the financial year ended 30 June 2021 and, pleasingly, significantly outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI), which returned +33.23% in one of the strongest financial years on record for domestic equities.

FY21 Total Return of NSC Core Holdings



SEBASTIAN EVANS
*Managing Director and
 Chief Investment Officer,
 NAOS Asset Management
 Limited*

COVID-19, GLOBAL FINANCIAL LIQUIDITY AND GOVERNMENT STIMULUS

I strongly believe that 12 months ago very few investors would have made even the slightest suggestion that the ASX-200 Index would post 11 months of gains in the financial year, with only September 2020 producing the single negative monthly return. I am a firm believer that no matter what edge any successful investor may believe they possess, at certain stages they will simply be the beneficiary of good fortune. In my opinion, FY21 was one of those years when the wind was at many investors' backs. Even so, I firmly believe that the patience we have shown as an investment team and remaining true to our investment philosophy, have played the most critical part in delivering the strong performance over FY21.

Today, we live in a world where interest rates have never been lower. Across the globe, central banks have flooded markets with liquidity through numerous initiatives, and federal governments have resorted to fiscal stimulus initiatives to drive investment over the short and medium term. This has been very apparent in Australia.

This backdrop has created an excellent environment for asset prices, which includes listed companies. The nuance to the above is that the type of company that the market perceives to benefit over the long term has shifted. As such, we have seen a sharp rebound in valuations for businesses that for the prior 3–4 years have generally been overlooked by many investors. Industries in which these businesses operate include financials, building materials, consumer discretionary and construction/engineering services to name a few.

All NAOS portfolios were a beneficiary to some degree of the events mentioned above in FY21. In saying that, I am a firm believer in the NAOS investment philosophy of investing with a long-term focus in industrial type businesses that:

- operate in growing industries;
- have a clear and increasing moat;
- are run by proven and aligned leaders;
- generate excellent free cash flow; and
- are disciplined and proven allocators of capital.

FY21 NOTABLE INVESTMENT PORTFOLIO CONTRIBUTORS AND DETRACTORS

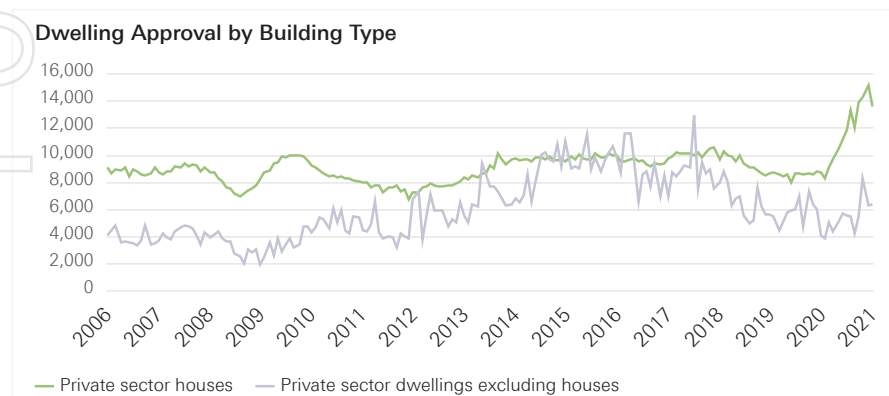
Big River Industries (ASX: BRI)

FY21 may well have been the year when the BRI strategy achieved the scale and momentum that it has desperately needed since listing some four years ago. There were three key events that occurred over the course of FY21 that assisted in driving the total return to over +55% for the financial year.

The first of these events was BRI's successful application for the NSW Government Bushfire Recovery Grant. This grant was established due to the devastating bushfires in the 2019/20 summer period. As a result of this grant, BRI will receive \$10 million to assist in the consolidation of its two manufacturing facilities into one facility at its Grafton operations. We believe BRI will emerge from this process as a more capital-efficient and predictable business. As a result of this manufacturing consolidation, the working capital unwind could prove to be significant. Subsequent to the relocation, BRI should receive additional proceeds from the sale of its Wagga Wagga land holding. Once this process has completed in FY23, we believe that the total improvement in the cash position of the business could be greater than \$16 million.

The second key event for BRI was the completion of its largest acquisition to date – Timberwood, for an enterprise value of \$24 million. Timberwood is a distributor of premium-grade timber panelling products and will provide BRI with much-needed scale within its core distribution segment. In addition, Timberwood distributes premium-quality, higher margin products that can now also be sold through BRI's wider distribution network. This acquisition highlights the large-scale opportunity for BRI to continue to grow its trade-focused distribution network as it operates within a highly fragmented industry and one that has a high level of baby-boomer ownership, with limited succession options.

The third key event has been the stimulus programs introduced by federal and state governments over the past 6–18 months, which have generally been very beneficial for the wider housing sector. We believe this will lead to sustained demand for building products associated with the building of new homes and the alterations of existing homes. We also believe that in the longer term, this heightened activity will flow through to large infrastructure projects (which we are already seeing), as well as multi-residential projects. An uptick in both of these market segments would also be beneficial for BRI and its growing national network.



Source: FactSet

"Some NSC investments are benefiting from strong short-to medium-term industry trends, e.g. Big River Industries (ASX: BRI) and COG Financial Services (ASX: COG), while others, e.g. BSA Limited (ASX: BSA), need to capitalise on potential opportunities and increase their scale in a realistic timeframe, both organically and via acquisitions."

COG Financial Services (ASX: COG)

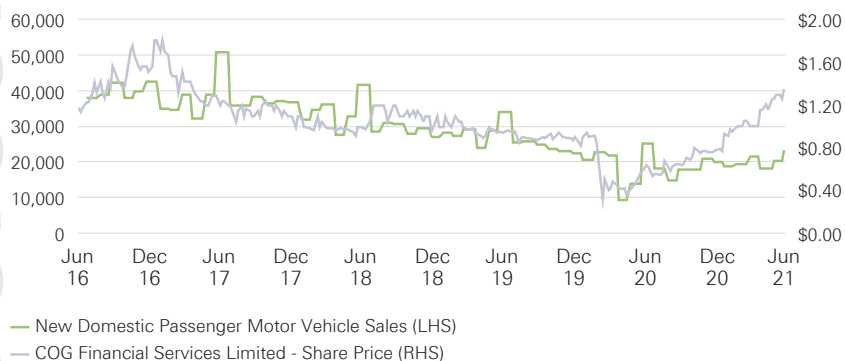
After many years of persistence, refining its strategy and adapting to the ever-changing finance industry, the COG management team has begun delivering on a strategy that works for its customer base as well as its shareholders. For FY21, we believe COG should deliver a group NPATA of approximately \$20 million, compared to just over \$9 million in the previous year.

More importantly, the quality and composition of the earnings has changed significantly for the better. We now view COG more like an insurance broker-type business as opposed to a typical finance business. The earnings generated from COG's broker operations accounted for >70% of the group's earnings and importantly, the balance of earnings, which are derived from lending, is generally via Westlawn Finance. Westlawn is run via a capital-light model, meaning it does not rely on COG's own balance sheet funds but on capital raised via the debenture program.

In the past year we have also seen digital online powerhouse REA Group (ASX: REA) successfully take over Mortgage Choice (ASX: MOC), which was Australia's largest mortgage broker network. We think this highlights the strategic value in building large-scale distribution networks within the financial services industry. While this is difficult to do, COG has been able to achieve this.

Looking forward, we expect COG to take advantage of its existing customer relationships and look to offer more essential products, such as business insurance and equipment/vehicle insurance. In theory, if you can provide critical financial arrangements for assets that allow your customers to operate their businesses, then the same should apply for the insurance of these assets, which can be completed at the same time as the financing. If COG can execute on this insurance opportunity, we believe the potential could be more than double that of the existing finance broking business and also provide a more recurring nature to its earnings profile.

COG Share Price vs. New Domestic Passenger Motor Vehicle Sales



Source: FactSet

BSA Limited (ASX: BSA)

Since the inception of the NSC Investment Portfolio, BSA has always showed potential. However, due to internal and external factors, this potential has either not been realised or it continues to be deferred until the following financial year. Unsurprisingly, FY21 was no different; however, as we exit FY21 and move into FY22, the potential for BSA does look more promising.

To the management team's credit, it did secure a new contract with the National Broadband Network (NBN). Under this contract, BSA has managed to secure the largest percentage of market share in what could be a long-duration and large-value contract. Following this success, BSA also secured a significant contract with Telstra Corporation (ASX: TLS), which also has potential to be of long duration and reasonably significant from a revenue standpoint.

It is our understanding that a significant majority of the executive team has changed under the new leadership of CEO Tim Harris, whom we hold in high regard. It will be imperative that BSA finally proves to the market that it can grow organically and achieve a respectable margin. Furthermore, BSA will need to be more cognisant of inorganic growth opportunities that would not only diversify the revenue base, but also bring scale that the business desperately needs to offset the fixed-cost nature of its corporate overhead, as well as further driving margin growth and potentially, further innovation.

"For NSC, there could be numerous catalysts that may have a material effect on the portfolio return in FY22."

NEW CORE INVESTMENTS AND EXITS

MNF Group (ASX: MNF)

Since the inception of the NSC Investment Portfolio, MNF has been a core investment and at times the largest investment in the portfolio. Over the course of the latter part of FY21, we made the decision to significantly reduce our holding due to a number of factors that we felt did not fit with our investment philosophy, including the following:

- In our opinion there has been a history of poor capital allocation, which has included significant investments in new business segments such as Pennytel (~\$3 million EBITDA p.a. investment) and acquisitions such as Conference Call International. One of these was sold for a nominal amount and the other is now part of an ongoing strategic review.
- A \$50-million placement was also completed approximately two years ago. In our view, these placement funds have not been used to execute on any significant growth strategy to date.
- The potential for significant investment in further expansion into South-East Asia, which may depress earnings for ~24 months. There has been little clarity provided on what the expected return would be on this investment.
- The potential for further competition in the very lucrative Australian market, which we believe has seen very little in the form of quality competition for the last 3–5 years. The Australian market has been MNF's cash engine.

MNF remains a very high-quality business with an excellent customer base and global growth potential. With a share price that has largely been flat over the last approximately four years, in our view the level of investment that MNF has made has not generated a sufficient return. The fifth year may well be the year that this changes and we hope it does, as MNF has the potential to be a market leader over time.

Gentrack Group Limited (ASX: GTK)

Technology-type companies have been some of the best-performing companies since COVID-19 as many of them have been the benefactors of the expedited transition to a more digital world. With the recent rotation out of higher growth, technology-type investments into more value-type investments, NSC has invested into a new core investment in what we believe to be a value-type software company called Gentrack Group Ltd (ASX: GTK).

GTK is a technology services provider to utilities and airport operators and was established in the 1980s when New Zealand deregulated its power markets. Today GTK has approximately 50 core customers across three main geographies: New Zealand, Australia and the UK, who are supported by over 300 internal engineering staff at GTK.

More recently GTK has undergone significant change, with a completely new executive team from the CEO down, as well as a new chair. From an earnings standpoint the business has also experienced a significant amount of change, in part due to internal execution issues as well as external issues such as regulation change in the UK for utilities providers, which has affected some of their customer base.

The reasons we are attracted to the GTK business are relatively simple. It is a business we have followed for over five years as it has a high-quality customer base. Over 75% of its revenue base is recurring in nature and, in theory, is growing. Many of the new executive team have worked together previously and have a good track record in running technology-focused businesses that solve the problems of very large organisations through innovative solutions.

Under the new team, GTK has reintroduced a move to fully expensing all research and development spend, which we view very favourably, the cash-flow generation has largely been sound, and its balance sheet stands in a healthy net cash position.

As is the case with a majority of our long-term investments, this particular investment will likely not be a smooth ride and does carry a degree of risk. Even so, we believe the risk is more than outweighed by the potential return. The returns will come if management can continue to grow the sticky revenue base, consistently grow margins, and reinvest the subsequent increased free cash flows into further improving its software, as well as inorganic opportunities that fit the strategy. If this can be achieved, the valuation multiple uplift applied to GTK could potentially be significant.

FY22 OUTLOOK

It is impossible to provide an accurate prediction as to how a portfolio of investments will perform over a 12-month period. Even so, I believe it is important to provide a general outlook to our fellow shareholders detailing our level of comfort with the current NSC investments, their potential, and any catalysts that may occur in FY22.

We believe that the current portfolio has a significant amount of unrealised value and the current trajectory for a clear majority of these businesses is where it needs to be. Some are benefiting from strong short- to medium-term industry trends, e.g. Big River Industries (ASX: BRI) and COG Financial Services (ASX: COG), while others, e.g. BSA Limited (ASX: BSA), need to capitalise on potential opportunities and increase their scale in a realistic timeframe, both organically and via acquisitions.

For NSC, there could be numerous catalysts that may have a material effect on the portfolio return in FY22. The key and most realistic catalysts in our view would include Over The Wire Holdings (ASX: OTW) achieving an organic growth rate of 10–15% at the revenue line with stable to growing EBITDA margins, and Big River Industries (ASX: BRI) capitalising on the industry tailwinds as well as sourcing another logical acquisition comparable to that of Timberwood. In addition, if COG Financial Services (ASX: COG) can provide greater transparency around the potential of the group to grow its insurance broking earnings and the current trajectory of this earnings stream, this would, in our view, command a higher valuation multiple.

FY21 was an excellent year from a pure return point of view, but we are under no illusions and believe that you are only as good as your next year's returns. We believe the NSC Investment Portfolio has a compelling balance between risk management (protection against permanent capital loss) and long-term returns, despite its highly concentrated portfolio.

As always, the entire team at NAOS would like to thank all our fellow shareholders for continuing to be shareholders in NSC and we also welcome all new shareholders who joined the register in FY21.

If you have any queries, do not hesitate to speak directly with me or any member of the team.

We look forward to continuing to provide you with regular updates throughout FY22.

Kind Regards,



Sebastian Evans

*Managing Director and Chief Investment Officer
NAOS Asset Management Limited*

INVESTING WITH NAOS ASSET MANAGEMENT

NAOS Asset Management is a specialist fund manager providing genuine long-term, concentrated exposure to Australian undervalued emerging companies with an industrial focus.

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

NAOS launched its first LIC in 2013 with 400 shareholders. Today, NAOS manages approximately \$400 million across three Listed Investment Company vehicles for close to 8,000 shareholders.

OUR VALUES

ENCOURAGE INDEPENDENT THINKING

Rather than follow the crowd, we prefer to pave the way with innovation and provide a better outcome for our stakeholders. We have a disciplined investment process and do not get caught up in the hype and noise of the market.

DO ONE THING AND DO IT REALLY, REALLY WELL

At NAOS we focus on providing genuine, long-term, concentrated exposure to emerging Australian industrial companies – and we strive to be the best at this.

TELL IT LIKE IT IS

At NAOS, we are honest and transparent. We continue to exist due to the earned trust of our shareholders.

HAVE THE RIGHT PEOPLE IN THE RIGHT ENVIRONMENT

Each NAOS employee has been specifically chosen for their unique ability, proven experience and willingness to learn. At NAOS, we have created an inclusive work culture and one that supports all our employees.

BE INVESTED AND ALIGNED

As NAOS Directors and employees, we have a significant interest in NAOS' investment strategies. This means we are invested alongside our shareholders, creating a strong alignment of interests. In addition, NAOS Asset Management Limited is majority owned by employees and Directors.

HAVE A LONG-TERM PERSPECTIVE

We believe in investing in businesses where the earnings today are not a fair reflection of what the same business may earn over the longer term. Prior to investing in a business, we ask ourselves: do we want to own this business forever?

ACT RESPONSIBLY

We are responsible for investing our fellow shareholders' funds and we do not take this responsibility lightly. NAOS seeks to always act responsibly and diligently in all matters – from our investment choices through to our shareholder communications.

BE AN OWNER

NAOS employees strive to make NAOS a success by taking ownership of their tasks and responsibilities. Most employees are also owners of NAOS.

GIVE BACK

As a company, we have committed to the Pledge 1% global movement; that is, to pledge 1% of our revenue, time and intellect to movements and missions that matter. We want to make a difference and aim to contribute to economic, social, and environmental change.

OUR INVESTMENT BELIEFS



VALUE WITH LONG-TERM GROWTH

We believe in investing in businesses where the earnings today are not a fair reflection of what the same business will earn over the longer term. Ultimately, this earnings growth can be driven by many factors including revenue growth, margin growth, cost cutting, acquisitions and even share buybacks. The end result is earnings growth over a long-term investment horizon, even if the business was perceived to be a value-type business at the time of the initial investment.



QUALITY OVER QUANTITY

Excessive diversification, or holding too many investments, may be detrimental to overall portfolio performance. We believe it is better to approach each investment decision with conviction. In our view, to balance risk and performance most favourably, the ideal number of quality companies in each portfolio would generally be 0 to 20.



INVEST FOR THE LONG TERM

As investors who are willing to maintain perspective by taking a patient and disciplined approach, we believe we will be rewarded over the long term. If our investment thesis holds true, we persist. Many of our core investments have been held for three or more years, where management execution has been consistent and the value proposition is still apparent.



MANAGEMENT ALIGNMENT

We believe in backing people who are proven and aligned with their shareholders. One of the most fundamental factors consistent across the majority of company success stories in our investment universe is a high-quality, proven management team with 'skin in the game'. NAOS Directors and employees are significant holders of shares on issue across our strategies, so the interests of our shareholders are well aligned with our own.



IGNORE THE INDEX

This means we are not forced holders of stocks with large index weightings that we are not convinced are attractive investment propositions. We actively manage each investment to ensure the best outcome for our shareholders and only invest in companies that we believe will provide excellent, sustainable long-term returns.



PURE EXPOSURE TO INDUSTRIALS

With the big four banks making up a large proportion of total domestic equity holdings for the SMSF investor group, many Australian investors are at risk of being overexposed to one sector and may be missing out on opportunities to invest in quality companies in industries such as media, advertising, agriculture or building materials. Australian listed industrial companies outside the ASX 50 are our core focus and we believe the LICs we manage provide pure access to these companies, which may be lesser known by the broader investment community.



PERFORMANCE VS. LIQUIDITY FOCUS

We believe in taking advantage of inefficient markets. The perceived risk associated with low liquidity (or difficulty buying or selling large positions) combined with investor short-termism presents an opportunity to act based purely on the long-term value proposition where the majority may lose patience and move on. Illiquidity is often caused by aligned founders or management having significant holdings in a company. NAOS benefits from a closed-end LIC structure, which means we do not suffer 'redemption risk' and we can focus on finding quality, undervalued businesses regardless of their liquidity profile.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy. NAOS is a signatory to the UN-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into its investment practices.



CONSTRUCTIVE ENGAGEMENT

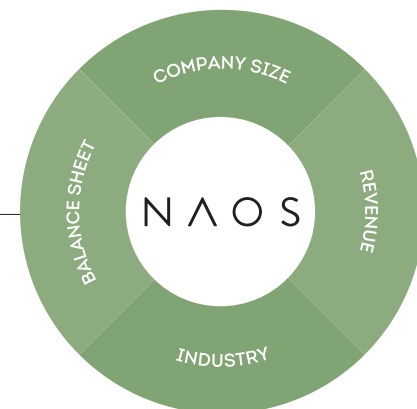
NAOS are not activist investors; due to our investment approach it is common for NAOS to establish a substantial shareholding in a company with a long-term (5 years+) investment horizon.

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

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

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

OUR INVESTMENT PROCESS



INVESTMENT UNIVERSE SCREEN CRITERIA		
TOTAL ASX-LISTED COMPANIES*	2,285	
INVESTMENT UNIVERSE FUNNEL	-255	COMPANY SIZE Remove: ASX Top 50, <\$10m Market Cap
	-321	REVENUE Remove: No Substantial Revenue.
	-779	INDUSTRY Remove: Industries in structural long-term decline and not conducive to long-term growth ESG Negative Screen: Tobacco, Gambling, Nuclear and Uranium, Controversial Weapons, Coal Mining Operations, Oil and Gas Production
	-606	BALANCE SHEET Remove: Unsustainable Debt Levels
COMPANIES IN THE NAOS UNIVERSE		324
INVESTMENT CRITERIA	MANAGEMENT & CULTURE	
	What is the management team's industry experience and what is its track record on results, integrity and transparency?	✓
	What ownership levels (shareholder alignment) does the management team have?	✓
	What is the staff turnover level and what does this say about business loyalty among employees?	✓
	What ethical standards do employees have?	✓
	Does the business's culture promote a 'shortcut' mentality?	✓
	Is there a company-wide desire to be an industry leader?	✓
	VALUATION, GROWTH & MARGIN OF SAFETY	
	Does the company have a moat from competition (patents, assets, monopolies, uniqueness, pricing power)?	✓
	Is this company moat increasing over time?	✓
INVESTMENT CRITERIA	Is the business scalable without incurring large increases in overheads?	✓
	Is the industry growing (demographic, technological, cyclical and consumer trends)?	✓
	Is there an obvious margin of safety (earnings quality, multiple, cash levels, growth runway)?	✓
	What is its free cash flow generation history and potential (capex levels, operating costs etc.)?	✓
	What is its balance sheet flexibility (cash reserves, undrawn debt, hard assets, liability obligations)?	✓
	Is the business growing organically (does it have avenues for internal growth)?	✓
	What are the trends in the company's return on invested capital (ROIC) and future potential?	✓
	Are there catalysts that can drive an increase in the share price?	✓
	ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)	
	Does the company comply with our ESG Framework?	✓
NAOS ACTIVE INVESTMENT UNIVERSE WATCHLIST	Adequate answer provided to the NAOS ESG Questionnaire?	✓
	50-80	
LISTED INVESTMENT COMPANY	0-20	
ASX:NSC		
NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED		
NSC generally invests in 0-20 ASX-listed SMALL-CAP industrial companies with a target market cap of <\$100m-\$1b		

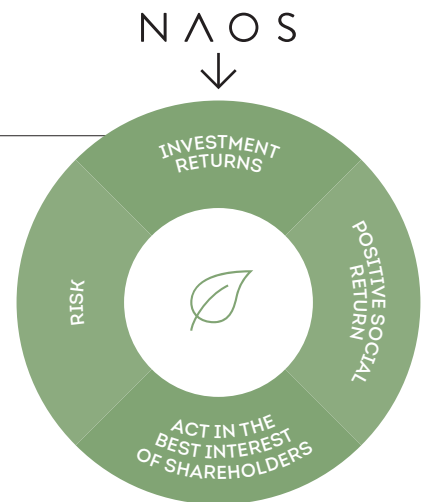
OUR ESG PROCESS

01 OUR COMMITMENT TO RESPONSIBLE INVESTMENT

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

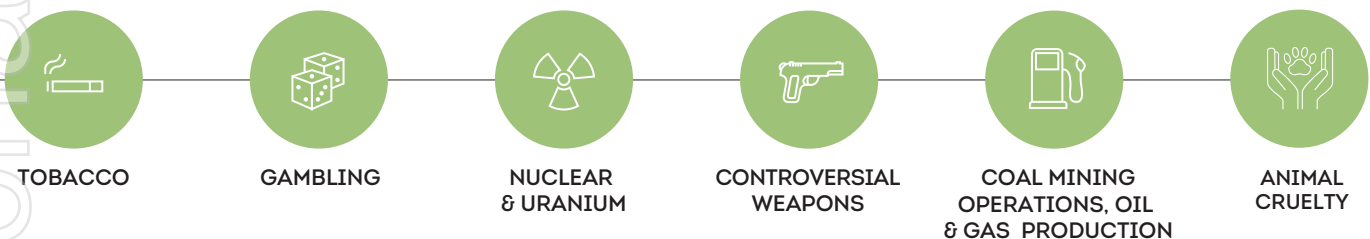
We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

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



02 NEGATIVE SCREENS

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



03 ESG FRAMEWORK

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



04 THE INCORPORATION OF ESG AND COMPANY QUESTIONNAIRE

The incorporation of ESG considerations into the investment process applies across all NAOS investments and involves regular discussions and engagement with companies over material ESG issues.

ESG considerations rest at the core of the NAOS investment process. While the investment team screens all prospective investments on an ESG basis, NAOS also ensures that all its investee companies abide by the same principles. NAOS seeks to ensure investee companies are acting in a responsible manner, are setting clear targets and are having a positive impact on their respective stakeholders (i.e. employees, clients, community). Their impact on the environment is foremost among these priorities. As part of this process, NAOS has continued to evolve its ESG questionnaire it provides to all investee companies. This questionnaire provides NAOS with transparent, consistent and granular data on how these companies are both performing and improving upon these focus points.

COMPANIES MAKING A DIFFERENCE



**EUREKA GROUP HOLDINGS
LIMITED (ASX: EGH)**

Eureka Group completed the NAOS ESG questionnaire during FY21.

2+ YEARS

NAOS Core Investment

\$140M

Eureka Group's market capitalisation as at 30 June 2021

Eureka Group is a rental village operator providing affordable living for independent seniors.



"Eureka's focus is on creating sustainable communities. The Board is developing an investing and environmental sustainability strategy to guide the Group over the next few years to deliver on its broader economic, environmental and social goals."

(Excerpt from the Eureka Group FY20 Annual Report)

HOW IS EUREKA GROUP MAKING A DIFFERENCE?

The following examples were provided by Eureka Group.



Environmental:

- Eureka Group is committed to energy conservation through its solar program.
- The company is developing a water-recycling program and increasing the use of water-saving devices to conserve water.
- A biodegradable waste management plan is being introduced.
- Sustainability initiatives, such as kitchen gardens, are being introduced.



Social:

- A corporate program of sponsorship and volunteering is under consideration. Examples of eligible organisations include Cancer Council Australia, and Meals on Wheels Australia.
- Eureka strives to ensure that its village managers are empathetic and empower the independence and wellbeing of residents.
- Focus on a Resident First culture creating a safe village community with a high level of social engagement – compassion respect and trust.
- Eureka is committed to providing affordable quality rental accommodation for seniors.
- A number of Eureka staff are trained and qualified to assist members of the community who are disadvantaged and have special care needs.
- Eureka has run a small number of resident fundraising programs for local charities and not-for-profits.
- Prioritising resident engagement and feedback with inaugural Voice of the Resident (VOR) survey underway across 16 Villages co-ordinated by an experienced and independent 3rd party market and social research group.



Governance:

- The company promotes a culture supportive of diversity and an inclusive workplace where employee differences in areas like gender, age, culture, disability and lifestyle choice are valued.
- Women represent 65% of employees in the organisation, holding 50% of executive positions and 25% of board positions.
- A clear Code of Conduct has been set and applies to all Directors and employees.



Areas for improvement:

- Develop a more effective communications strategy around the Eureka Group ESG strategy with clear and measurable KPIs.
- Provide more transparency around resident engagement and feedback.
- Formalise an environmental policy and statement.

HOW IS EXP MAKING A DIFFERENCE?

The following examples were provided by Experience Co.

Environmental:

- The group has established procedures whereby compliance with environmental regulations is managed.
- The group is accredited with several environmental organisations, such as the Australian-based Planet Safe Partnership and Advanced Ecotourism via Ecotourism Australia.
- Company-wide initiatives have been implemented to reduce the Group's environmental impact, e.g. aircraft fleet upgrades focusing on minimisation of noise and carbon emissions.
- The group plans to have more of its boats powered by renewables.
- All USBs and plastic bags have been removed from skydiving drop zones.
- Specialised pilot training is being delivered to ensure flight plans include fuel efficiency and noise reduction measures.
- All official branded merchandise is created by AS Colour, a company that takes pride in its Responsible Sourcing Program.

Social:

- Initiatives for social value include the CEO Skydive for mental health, which raises funds for Black Dog Institute.
- A skydiving partnership has been established with Stellar Experiences to provide experiences and outings for young people living with disability.
- EXP is working with the Mars Family Foundation with a focus on reef regeneration.
- Dreamtime cruise boats are now supporting indigenous rangers and local Indigenous communities.
- EXP is currently building a new pontoon on the Great Barrier Reef, which will be powered by renewable energy.

Governance:

A formal governance statement is in place and is adhered to.

- Diversity is encouraged and the group recognises the value of diverse perspectives.
- Female board participation is 20%.
- Alignment of the board is ~ 33%.
- The EXP Board is majority independent.
- The board has a remuneration and nomination committee that identifies suitable candidates with appropriate skills, experience, expertise and diversity to ensure the board is able to discharge its mandate effectively.

Areas for improvement:

- Implement a waste management policy.
- Offer carbon offset to customers for Skydive Australia to be implemented in the future.
- Provide disability access for all businesses.



EXPERIENCE CO. (ASX: EXP)

Experience Co. completed the NAOS ESG questionnaire during FY21.

2 YEARS

NAOS Core Investment

\$166M

EXP market capitalisation as at 30 June 2021

EXP is an adventure tourism company



"As an outdoor adventure and tourism company, the Group is committed to protecting and minimising the impact on the environment, promoting environmental best practice operations and to achieving maximum sustainability."

(Excerpt from Experience Co.'s Corporate Governance Statement)

OUR TEAM

SEBASTIAN EVANS

*Chief Investment Officer
and Managing Director*



Sebastian is a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Small Cap Opportunities Company Limited (ASX: NSC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and has held the positions of Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager, since 2010. Sebastian is the CIO across all investment strategies.

Sebastian holds a Master of Applied Finance (MAppFin) majoring in investment management as well as a Bachelor of Commerce majoring in finance and international business, a Graduate Diploma in Management from the Australian Graduate School of Management (AGSM) and a Diploma in Financial Services.

BRENDAN YORK

Portfolio Manager



Brendan joined NAOS in July 2021 as a Portfolio Manager. Brendan has over 19 years' finance, accounting and M&A experience. Most recently Brendan had a 15-year career with ASX-listed marketing services business Ereno Group Limited in finance roles and ultimately as CFO and Company Secretary for a 9-year period. Prior to that, Brendan spent four years at KPMG.

Brendan is a chartered accountant and holds a Bachelor of Business Administration and a Bachelor of Commerce from Macquarie University.

NELSON DE MESTRE

Associate Analyst



Nelson joined NAOS as an associate analyst in July 2020. He has a Bachelor of Commerce from the University of Sydney and is in the process of completing an honours program.

ROBERT MILLER

Portfolio Manager



Robert joined NAOS in September 2009 as an investment analyst. Robert has been a portfolio manager since November 2014 and is currently Portfolio Manager across all NAOS LICs: NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Small Cap Opportunities Company Limited (ASX: NSC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC).

Robert holds a Bachelor of Business from the University of Technology, Sydney. Robert also holds a Master of Applied Finance from the Financial Services Institute of Australasia/Kaplan.

JARED TILLEY

Senior Investment Analyst



Jared joined NAOS in April 2021 as a Senior Investment Analyst. Jared has over 14 years' financial services experience. Most recently Jared was an investment analyst at Contact Asset Management and prior to that spent nine years at Colonial First State.

Jared holds a Bachelor of Commerce majoring in accounting and finance, from the University of Notre Dame, Sydney, and is a CFA Charterholder.

JULIE COVENTRY

ESG Officer



Julie joined NAOS in November 2012 as Compliance Officer and in January 2021, commenced the role of ESG Officer.

Prior to joining NAOS, Julie worked within the compliance and performance teams at BZW Investment Management, Commonwealth Bank, Colonial First State and QBE.

Julie holds a Bachelor of Business majoring in finance and economics from the University of Technology, Sydney, and she also holds a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.



RICHARD PREEDY

Chief Financial and Operating Officer

Richard joined NAOS in October 2015 as Chief Financial and Operating Officer. Richard has over 14 years' financial services experience in the UK and Australia, beginning his career in London with Deloitte & Touche before relocating to Sydney in 2013.

Richard holds a BA (Hons) in Business Management from the University of Sheffield, is a fully qualified Chartered Accountant and is a member of the Governance Institute of Australia.



ANGELA ZAMMIT

Marketing and Communications Manager

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

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

Angela holds a Bachelor of Communications majoring in advertising and marketing from the University of Canberra.



JULIA O'BRIEN

Business Development Manager

Julia joined NAOS in September 2015 in the capacity of Business Development Manager.

Prior to joining NAOS, Julia held various client relationship roles within the financial services industry in Australia and the UK, including roles at Macquarie Bank and most recently with Deutsche Bank.

Julia holds a Bachelor of Business majoring in accounting from the University of Technology, Sydney, and she also holds a Graduate Diploma in Applied Finance from Kaplan.



RAJIV SHARMA

Head of Legal and Compliance

Rajiv is Head of Legal and Compliance at NAOS and holds a Bachelor of Laws (First Class Honours), a Bachelor of Business (accounting major) and a Graduate Diploma in Legal Practice from the University of Technology, Sydney.

Rajiv has over 11 years' experience, having most recently held senior legal roles at Custom Fleet, part of Element Fleet Management Group (TSX: EFN) and Magellan Financial Group (ASX: MFG). He has also previously worked at law firms Johnson Winter & Slattery and Clayton Utz.

Rajiv is a member of the Law Society of New South Wales, an Associate of the Governance Institute of Australia and is admitted to the Supreme Court of New South Wales and the High Court of Australia.



NINA DUNN

Business Development Manager

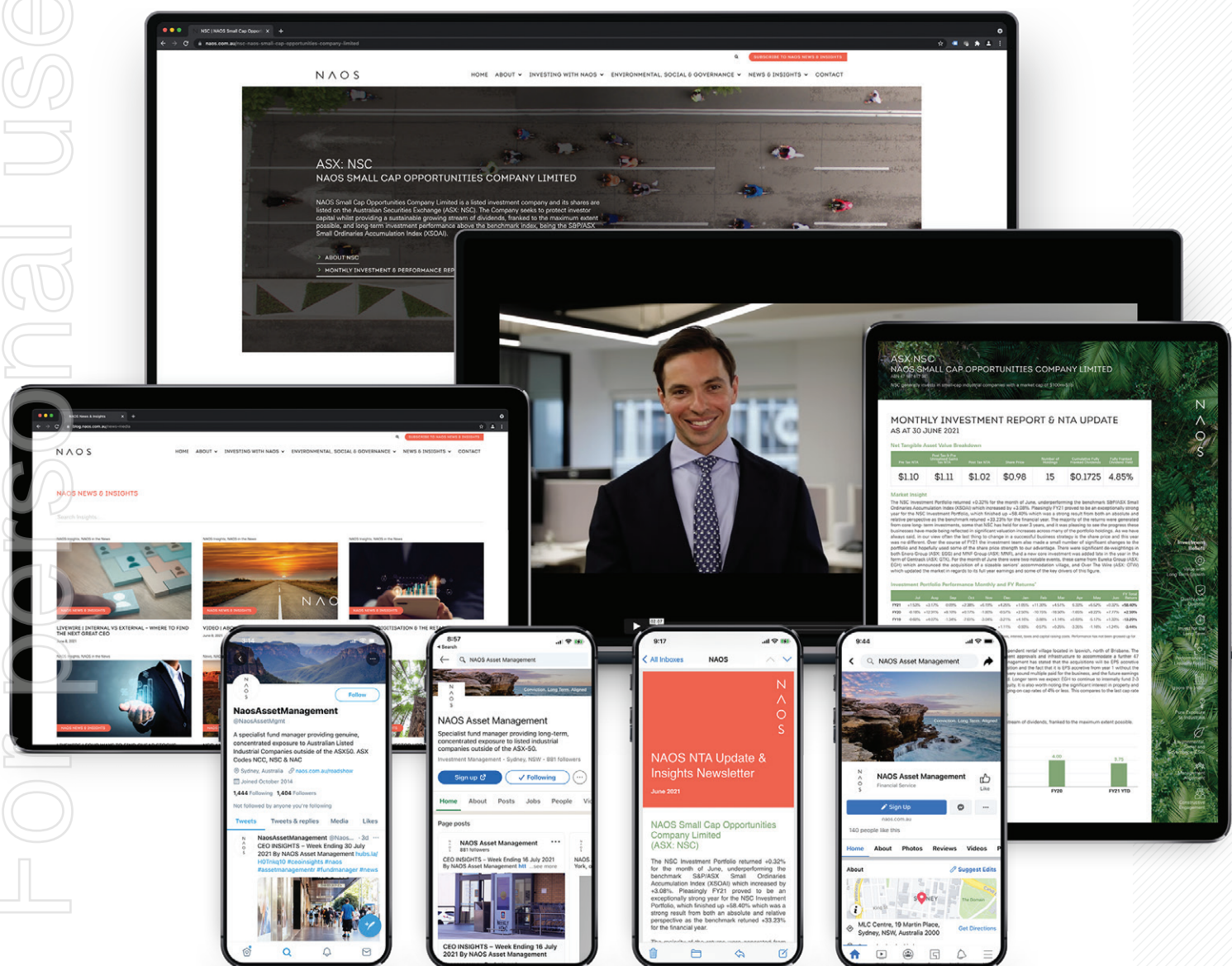
Nina Dunn joined NAOS in July 2020 as Business Development Manager.

Prior to joining NAOS, Nina worked as the Director of Marketing at Morrow Sodali. Nina has spent much of her career in the funds management industry, working in senior investor relations and marketing roles for Wilson Asset Management, Ellerston Capital and Select Asset Management.

Nina has a Bachelor of Arts (Business) from the University of Sydney and a Graduate Diploma in Financial Markets from the Financial Services Institute of Australia (FINSIA).

SHAREHOLDER COMMUNICATIONS

NAOS Asset Management is committed to keeping all shareholders up to date. We endeavour to produce timely updates and relevant communications throughout the financial year. We also welcome shareholder feedback, so please email any feedback or suggestions to enquiries@naos.com.au



NAOS GIVING BACK

To be caretakers of the next generation we must actively support positive change. Supporting our commitment to ESG issues, NAOS Asset Management (the management company) donates 1% of recurring revenue to the community and the environment.

NAOS is proud to be supporting:



Healthy, productive landscapes where people and nature thrive



Together, we're returning the bush to good health



RFDS, dedicated to providing health care to Australians in remote communities



Supporting children aged 8–18 years, living in families impacted by mental illness

CORPORATE GOVERNANCE STATEMENT

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

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

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DIRECTORS' REPORT

The Directors present their report together with the financial report of NAOS Small Cap Opportunities Company Limited (the "Company") for the financial year ended 30 June 2021.

COMPANY INFORMATION

The Company is a listed investment company ("LIC") and its shares are listed on the Australian Securities Exchange. Since 20 October 2017, the Company has outsourced its investment management function to NAOS Asset Management Limited (ACN 107 624 126) (Australian Financial Services Licence No. 273529) (the "Investment Manager").

PRINCIPAL ACTIVITIES

The Company invests primarily in a concentrated portfolio of small-cap Australian listed equities that are not included in the S&P/ASX 100 Accumulation Index with the objective of providing investors with genuine exposure to small-cap industrial companies, with a long-term value focus.

DIRECTORS AND OFFICERS

The following persons held office as Directors of the Company during or since the end of the year:

Directors

Name	Appointment Date	Period of Office
Mr Trevor Carroll (Independent Chairman)	27 March 2017	27 March 2017 – present
Mr Warwick Evans	20 October 2017	20 October 2017 – present
Mr David Rickards	28 February 2018	28 February 2018 – present
Mr Sebastian Evans	20 October 2017	20 October 2017 – present

The qualifications and experience of each person who has been a Director of the Company at any time since 1 July 2020 are provided below.

DIRECTORS' INFORMATION

Trevor Carroll, Independent Chairman

Trevor Carroll has been a Director of the Company since 27 March 2017 and was appointed Chairman on 26 October 2017.

Trevor was formerly Australian and New Zealand CEO of Electrolux Home Products. With over 30 years' experience in consumer-focused product strategy, brand marketing and manufacturing, Trevor's experience extends to membership of the Electrolux Global Product Council, which is responsible for product development worldwide.

Following his retirement as CEO, Trevor undertook a role in Shanghai advising Electrolux China on product strategy. In recent years, Trevor has been a director of The Good Guys, Fusion Retail Brands, Big Sister Foods Group, and Crane Group.

He is an emeritus member of the Australian Industry Group Board, where he was National President between 2006 and 2008. Trevor holds a Bachelor of Commerce from Canterbury University (NZ).

David Rickards, Independent Director

David Rickards has been an Independent Director of the Company since 28 February 2018. David is also an Independent Director and Chairman of NAOS Emerging Opportunities Company Limited (ASX: NCC) and NAOS Ex-50 Opportunities Company Limited (ASX: NAC). He is also Co-founder of Social Enterprise Finance Australia Limited (Sefa) and until recently, he was a director and treasurer of Bush Heritage Australia.

David has over 25 years of equity market experience, most recently as an executive director at Macquarie Group where David was head of equities research globally, as well as equity strategy since 1989 until he retired in mid-2013. David was also a consultant for the financial analysis firm Barra International.

David holds a Master of Business Administration from the University of Queensland majoring in accounting and finance. He also has a Bachelor of Engineering (Civil Engineering) and a Bachelor of Engineering (Structural Engineering) from the University of Sydney, and a Bachelor of Science (Pure Mathematics and Geology).

DIRECTORS INFORMATION (CONTINUED)

Warwick Evans, Non-independent Director

Warwick Evans has been a Director of the Company since 20 October 2017. Warwick is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and NAOS Asset Management Limited, the Investment Manager.

Warwick has over 35 years of equity market experience, most notably as Managing Director for Macquarie Equities (globally) from 1991 to 2001, and as an executive director for Macquarie Group. He was founding Chairman and CEO of the Newcastle Stock Exchange (NSX) and was also Chairman of the Australian Stockbrokers Association. Prior to these positions, Warwick was an executive director at County NatWest.

Warwick holds a Bachelor of Commerce from the University of New South Wales majoring in economics.

Sebastian Evans, Non-independent Director

Sebastian Evans has been a Director of the Company since 20 October 2017. Sebastian is also a Director of NAOS Emerging Opportunities Company Limited (ASX: NCC), NAOS Ex-50 Opportunities Company Limited (ASX: NAC) and has held the positions of Chief Investment Officer (CIO) and Managing Director of NAOS Asset Management Limited, the Investment Manager, since 2010.

Sebastian is the CIO across all investment strategies. He holds a Master of Applied Finance (MAppFin) majoring in investment management as well as a Bachelor of Commerce majoring in finance and international business, a Graduate Diploma in Management from the Australian Graduate School of Management (AGSM) and a Diploma in Financial Services.

COMPANY SECRETARY

The following persons held office as Company Secretary during or since the end of the financial year.

Name	Appointment Date	Period of Office
Mr Rajiv Sharma	12 March 2021	12 March 2021 – present
Mr Sebastian Evans	10 July 2019	10 July 2019 – present
Ms Laura Newell	10 July 2019	10 July 2019 – 12 March 2021

Company Secretary Information

Rajiv Sharma, Company Secretary (Appointed 12 March 2021)

Rajiv is Head of Legal and Compliance at NAOS Asset Management and holds a Bachelor of Laws (First Class Honours), a Bachelor of Business (Accounting major) and a Graduate Diploma in Legal Practice from the University of Technology, Sydney.

Rajiv has over 11 years' experience, having most recently held senior legal roles at Custom Fleet, part of Element Fleet Management Group (TSX: EFN) and Magellan Financial Group (ASX: MFG). He has also previously worked at law firms Johnson Winter & Slattery and Clayton Utz.

Rajiv is a member of the Law Society of New South Wales, an Associate of the Governance Institute of Australia and is admitted to the Supreme Court of New South Wales and the High Court of Australia.

MEETINGS OF DIRECTORS

The following table shows the number of meetings held during the financial year ended 30 June 2021.

Year ended 30 June 2021

	Eligible to attend	Attended
Mr Trevor Carroll (Chairman)	12	12
Mr Sebastian Evans (Director)	12	12
Mr Warwick Evans (Director)	12	12
Mr David Rickards (Director)	12	12

DIRECTORS' REPORT

Continued

REVIEW OF OPERATIONS

The Company's operating profit before tax for the year ended 30 June 2021 was \$71,118,170 (30 June 2020: operating profit before tax of \$1,313,569), and operating profit after tax for the year was \$51,526,117 (30 June 2020: operating profit after tax of \$1,413,242). The profit for the year is primarily attributable to the performance of the investment portfolio, which delivered a return of +58.40% for the financial year, significantly outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index, which returned +33.23% for the financial year, in an exceptionally strong year for domestic equities.

The post-tax Net Tangible Asset ('NTA') value per share of the Company has increased from \$0.73 to \$1.02 over the year, which was mainly driven by the performance of the investment portfolio. After adjusting for the 4.75 cents of fully franked dividends paid to shareholders during the year, the NTA return was +46.23%.

The on-market share buyback continued to be active during the financial year to take advantage of the discount of the share price relative to NTA. During the financial year, a total of 5,718,964 shares were bought back for a total consideration of \$3,914,408. The buyback of shares by the Company at a discount is accretive to NTA per share, and as such the Board considers the buyback program to be an effective use of the Company's capital and thus in the interests of all shareholders.

Please refer to the Investment Manager's Review on page 11 for further information regarding the performance of the Company.

FINANCIAL POSITION

The net tangible assets of the Company as at 30 June 2021 were \$156,214,754 (2020: \$115,842,070). Further information on the financial position of the Company is included in the Chairman's Letter.

DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2021	Dividend rate (cents per share)	Total amount \$'000	% franked	Date of payment
2020 final quarterly dividend (declared on 20 August 2020)	1.00	1,574	100%	16 September 2020
2021 first quarterly interim dividend (declared on 15 October 2020)	1.25	1,950	100%	26 November 2020
2021 second quarterly interim dividend (declared on 18 February 2021)	1.25	1,933	100%	18 March 2021
2021 third quarterly interim dividend (declared on 21 April 2021)	1.25	1,931	100%	26 May 2021
		7,388		

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

Since 30 June 2021, the Board has declared a final quarterly dividend of 1.25 cents per share, fully franked, to be paid on 20 September 2021.

OPTIONS ISSUE

During the year, the Company completed a 1-for-3 bonus options issue with a record date of 25 May 2021, which entitled eligible shareholders to a bonus option to purchase new shares in the Company at an exercise price of \$1.02 and which expire on 28 June 2024. 51,102,065 bonus options were issued, which are listed on the ASX under code (ASX: NSCOA), and 145,576 bonus options have been exercised as at 30 June 2021.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

On 19 August 2021, the Company declared a fully franked quarterly dividend of 1.25 cents per share, payable on 20 September 2021.

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

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year, the Company paid premiums in respect of contracts insuring the Directors against a liability incurred as a director or executive officer to the extent permitted by the Corporations Act 2001 (Cth). The contracts of insurance prohibit disclosure of the nature of the liability and the amount of the premiums. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability as such an officer or auditor.

ROUNDING

The Company has applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the financial statements and in the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company.

NON-AUDIT SERVICES

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 34.

REMUNERATION REPORT (AUDITED)

The Directors of the Company present the Remuneration Report to shareholders. The report is a requirement under section 300A (1) of the Corporations Act 2001 and covers the following information:

- the Board's policy for determining the nature and amount of remuneration of Directors and other key management personnel (if any) of the Company;
- a discussion of the relationship between such policy and the Company's performance; and
- the details of the remuneration of the Directors and other management personnel (if any).

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

DIRECTORS' REPORT

Continued

REMUNERATION REPORT (AUDITED) (CONTINUED)

Payments to Directors reflect the demands and responsibilities of their roles and are reviewed annually by the Board. The Company determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors. The maximum amount is currently \$750,000 (including superannuation contributions) as approved by shareholders at the 2013 Annual General Meeting.

Director's remuneration received for the year ended 30 June 2021 and 30 June 2020 is disclosed below.

	Short-term employee benefits Directors' fees \$	Post- employment benefit superannuation \$	Total \$
30 June 2021			
Mr Trevor Carroll (Chairman)	31,964	3,036	35,000
Mr Warwick Evans (Director)	22,831	2,169	25,000
Mr David Rickards (Director)	22,831	2,169	25,000
Mr Sebastian Evans (Director)	–	–	–
Total	77,626	7,374	85,000

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

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

Interest in Shares and Options of the Company

During the year ended 30 June 2021 and the year ended 30 June 2020, the relevant interests of the Directors and their related parties in the shares and bonus options of the Company were as follows:

Ordinary shares Year ended 30 June 2021	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll (Chairman)	182,024	12,425	–	194,449
Mr Sebastian Evans (Director)	1,158,500	–	–	1,158,500
Mr Warwick Evans (Director)	556,271	37,973	–	594,244
Mr David Rickards (Director)	317,115	21,648	–	338,763

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Interest in Shares and Options of the Company (continued)

Bonus options Year ended 30 June 2021	Opening balance No of bonus options	Issued No of bonus options	Exercised No of bonus options	Closing balance No of bonus options
Mr Trevor Carroll	–	63,861	–	63,861
Mr Sebastian Evans	–	386,166	–	386,166
Mr Warwick Evans	–	195,161	–	195,161
Mr David Rickards	–	111,256	–	111,256

Consequences of Company's Performance on Shareholder Wealth

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

	2021	2020	2019	2018	2017
Operating profit/(loss) after tax (\$'000)	51,527	1,412	(17,702)	4,744	(13,894)
Dividends (cents per share)	5.00	4.00	4.00	5.50	6.60
Level of franking on dividends (%)	100	100	100	100	50
NTA after tax (\$ per share)	1.02	0.73	0.75	0.92	0.96
Total Directors' remuneration (\$)	85,000	85,000	85,000	111,572	309,800
Shareholder's equity (\$'000)	156,215	115,842	125,457	155,342	160,755

Director fees are not linked to the Company's performance.

End of Remuneration Report (Audited).

Signed in accordance with a resolution of the Directors of the Company made pursuant to section 298 (2) of the Corporations Act 2001.



Sebastian Evans
Director

19 August 2021

AUDITOR'S INDEPENDENCE DECLARATION



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

19 August 2021

Dear Directors,

NAOS Small Cap Opportunities Company Limited

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

As lead audit partner for the audit of the financial statements of NAOS Small Cap Opportunities Company Limited for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink, appearing to read "David Salmon".

David Salmon
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT



Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of NAOS Small Cap Opportunities Company Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of NAOS Small Cap Opportunities Company Limited (the "Company"), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of NAOS Small Cap Opportunities Company Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Valuation and existence of financial assets held at fair value through profit or loss</p> <p>As at 30 June 2021, the Company's listed equity securities held at fair value through profit or loss totalled circa \$194 million as disclosed in Notes 7 and 17.</p> <p>Whilst there is not significant judgement in determining the valuation of Company's financial assets held at fair value through profit or loss, these represent the most significant driver of the Company's revenue and its performance.</p> <p>The fluctuations in financial assets valuation also impacts the realised and unrealised gains/(losses) recognised in the statement of profit or loss and other comprehensive income, which in turn also affects the current and deferred tax provisions.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> evaluating key controls in place at the outsourced service providers (i.e. administrator and custodian) in relation to the valuation and existence of financial assets at fair value through profit or loss, including any exceptions noted; agreeing on a sample basis, the valuation of listed equity securities to an independent pricing source; agreeing on a sample basis, the investment holdings to the external custodian's holdings statement; and reperforming a reconciliation of the financial assets balance for the year, including the 1 July 2020 investment balance, purchases, sales, other relevant transactions and the 30 June 2021 investment balance. <p>We also assessed the appropriateness of the disclosures in Notes 7 and 17 to the financial statements.</p>

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INDEPENDENT AUDITOR'S REPORT

Continued

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibility for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 33 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of NAOS Small Cap Opportunities Company Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

David Salmon

David Salmon
Partner
Chartered Accountants
Canberra, 19 August 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Note	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Income	3	76,174	6,625
Expenses			
Management fees	16	(1,885)	(1,756)
Interest expense	9	(1,326)	(1,858)
Transaction costs		(798)	(622)
Listing, custody and registry fees		(316)	(255)
Legal and professional fees		(88)	(108)
Amortisation costs		(160)	(181)
Directors' remuneration expense		(85)	(85)
Other expenses from ordinary activities		(398)	(448)
Profit before income tax expense		71,118	1,312
Income tax (expense)/benefit	4 (a)	(19,591)	100
Profit for the year attributable to shareholders of the Company		51,527	1,412
Other comprehensive income for the year		–	–
Total comprehensive income for the year attributable to shareholders of the Company		51,527	1,412
Basic and diluted earnings per share (cents per share)	18	33.12	0.87

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	13 (a)	456	227
Trade and other receivables	6	1,797	409
Prepayments		95	65
Financial assets at fair value through profit or loss	7	193,904	133,981
Total current assets		196,252	134,682
Non-current assets			
Deferred tax assets	4 (b)	2,662	7,977
Total non-current assets		2,662	7,977
Total assets		198,914	142,659
Liabilities			
Current liabilities			
Trade and other payables	8	1,969	523
Total current liabilities		1,969	523
Non-current liabilities			
Deferred tax liabilities	4 (c)	14,276	–
Borrowings	9	26,454	26,294
Total non-current liabilities		40,730	26,294
Total liabilities		42,699	26,817
Net assets		156,215	115,842
Equity			
Issued capital	10	191,142	194,908
Profits reserve	11 (a)	32,793	23,543
Accumulated losses	11 (b)	(67,720)	(102,609)
Total equity		156,215	115,842

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Note	Issued capital \$'000	Profits reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2019		200,293	7,620	(82,456)	125,457
Profit for the year		–	–	1,412	1,412
Transfer to profits reserve		–	21,565	(21,565)	–
Dividends paid		–	(5,642)	–	(5,642)
DRP shares allotted		742	–	–	742
Purchase of shares on market for DRP		(742)	–	–	(742)
Shares bought back from shareholders		(5,385)	–	–	(5,385)
Balance at 30 June 2020		194,908	23,543	(102,609)	115,842
Balance at 1 July 2020		194,908	23,543	(102,609)	115,842
Profit for the year		–	–	51,527	51,527
Transfer to profits reserve		–	16,638	(16,638)	–
Dividends paid		–	(7,388)	–	(7,388)
DRP shares allotted		1,037	–	–	1,037
Purchase of shares on market for DRP		(1,037)	–	–	(1,037)
Share options exercised		148	–	–	148
Shares bought back from shareholders		(3,914)	–	–	(3,914)
Balance at 30 June 2021		191,142	32,793	(67,720)	156,215

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Cash flows from operating activities			
Payments for purchase of investments		(90,456)	(74,160)
Proceeds from sale of investments		99,769	84,909
Dividends received		6,074	2,574
Interest received		115	15
Interest paid to note holders		(1,336)	(2,126)
Income tax benefit		–	234
Other payments		(2,783)	(2,626)
Net cash provided by operating activities	13 (b)	11,383	8,820
Cash flows from financing activities			
Dividend paid net of amounts reinvested		(6,351)	(4,900)
Purchase of shares on market for DRP		(1,037)	(742)
Share options exercised		148	–
Payments for buyback of shares		(3,914)	(5,385)
Repayment of convertible notes		–	(26,500)
Net proceeds from issue of unsecured notes		–	26,202
Net cash used in financing activities		(11,154)	(11,325)
Net decrease in cash and cash equivalents		229	(2,505)
Cash and cash equivalents at the beginning of the year		227	2,732
Cash and cash equivalents at the end of the year	13 (a)	456	227

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

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

NAOS Small Cap Opportunities Company Limited (the "Company") is a public company listed on the Australian Securities Exchange (ASX: NSC) registered and domiciled in Australia. The Company was constituted on 14 January 2004 and commenced operations on 25 March 2004.

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

NAOS Asset Management Limited (the "Investment Manager") is the Investment Manager for the Company. The financial statements were authorised for issue by the Directors on 19 August 2021.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Preparation

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

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

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

b) Prior Year Comparatives

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

c) Statement of Compliance

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

d) Reporting Currency

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

e) Going Concern Basis

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

f) Revenue and Income Recognition

Revenue

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

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

Dividends

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

Interest Income

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

g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h) Investments in Financial Instruments

Investments in financial instruments, as defined by AASB 132 'Financial Instruments: Presentation', are categorised in accordance with AASB 9 'Financial Instruments'. This classification is determined by the purpose underpinning the acquisition of the investment. The classification of each financial instrument is re-evaluated at each financial period end.

(i) Initial Recognition, Measurement and Derecognition

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

At initial recognition, the Company measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Profit or Loss and Other Comprehensive Income.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Investments in Financial Instruments (continued)

(iii) Classification and Subsequent Measurement

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

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the “financial assets or financial liabilities at fair value through profit or loss” category are presented in the Statement of Profit or Loss and Other Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the year in which they arise.

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

Financial Liabilities

Financial liabilities include trade and other payables, tax payable and borrowings. Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Impairment of Financial Assets

The Company recognises a loss allowance for expected credit losses (ECL) on financial assets excluding investments that are measured at fair value through profit and loss. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since the initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The amount of impairment loss will be recognised in the Statement of Profit or Loss and Other Comprehensive Income.

i) Expenses

All expenses, including the Investment Manager's fees, are

recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

j) Receivables

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

k) Payables

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

l) Taxation

The income tax expense/(benefit) comprises current tax and movements in deferred tax.

Current income tax expense/(benefit) is the tax payable/(receivable) on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/(assets) are therefore measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Current and deferred tax expense/(benefit) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity. Deferred tax assets and liabilities are ascertained based on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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

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

NOTES TO THE FINANCIAL STATEMENTS

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Dividends

Dividends payable are recognised in the reporting period in which they are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

n) Share Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect.

o) Profits Reserve

The profits reserve is made up of amounts transferred from current and retained earnings that are preserved for future dividend payments.

p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

q) Earnings per Share

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

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

r) Rounding of amounts

The Company has applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the financial statements and in the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

s) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Income Tax

The Company has recognised deferred tax assets relating to prior period tax losses of \$2,586,862 as at 30 June 2021. The utilisation of tax losses depends on the ability of the Company to generate future taxable profits. The Company considers that it is probable that future taxable profits will be available to utilise those deferred tax assets. This assessment is supported by the Investment Manager's long term performance and profitability. New information may become available that may cause the Company to change its judgement regarding calculation of tax balances, and such changes will impact the profit or loss in the period that such determination is made. However, utilisation of the tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. The Company may fail to satisfy the continuity of ownership test and therefore would have to rely on the same business test. If the Company fails to satisfy the test, the deferred tax asset on tax losses of \$2,586,862 that is currently recognised would be written off.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New or Amended Accounting Standard and Interpretations Adopted in the Current Period

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. These Standards and Interpretations did not have a material impact on these financial statements.

New Accounting Standards and Interpretations Not Yet Adopted

There are no new Accounting Standards or Interpretations applicable that would have a material impact for the Company.

3. INCOME

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Net gains on financial assets held at fair value through profit or loss	70,342	4,015
Interest income	114	13
Dividend income	5,718	2,597
Total income	76,174	6,625

4. INCOME TAX**(a) Income Tax Expense/(Benefit)**

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

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Prima facie income tax expense/(benefit) calculated at 30%	21,336	394
Less the tax effect of:		
Imputation credit gross up	741	212
Franking credit offset	(2,470)	(706)
Under/(over) provision of prior year tax	(16)	–
	19,591	(100)

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Total income tax expense/(benefit) results in a:		
Change in deferred tax liabilities	14,276	–
Change in deferred tax assets	5,315	(100)
	19,591	(100)

b) Deferred Tax Assets

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Tax losses	2,587	6,221
Accruals	75	51
Unrealised losses on investments	–	1,705
	2,662	7,977

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Movement in deferred tax assets		
Balance at the beginning of the period	7,977	7,877
(Charged)/credited to the Statement of Profit or Loss and Comprehensive Income	(5,315)	100
At reporting date	2,662	7,977

NOTES TO THE FINANCIAL STATEMENTS

Continued

4. INCOME TAX (CONTINUED)

c) Deferred Tax Liabilities

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Temporary differences in relation to:		
Unrealised gains on investments	14,276	–
	14,276	–
	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Movement in deferred tax liabilities		
Balance at the beginning of the year	–	–
Credited to the Statement of Profit or Loss and Comprehensive Income	14,276	–
At reporting date	14,276	–

5. DIVIDENDS PAID OR PAYABLE

Year ended 30 June 2021	Dividend rate (cents per share)	Total amount \$'000	% franked	Date of payment
2020 final quarterly dividend (declared on 20 August 2020)	1.00	1,574	100%	16 September 2020
2021 first quarterly interim dividend (declared on 15 October 2020)	1.25	1,950	100%	26 November 2020
2021 second quarterly interim dividend (declared on 18 February 2021)	1.25	1,933	100%	18 March 2021
2021 third quarterly interim dividend (declared on 21 April 2021)	1.25	1,931	100%	26 May 2021
		7,388		
Year ended 30 June 2020	Dividend rate (cents per share)	Total amount \$'000	% franked	Date of payment
2019 final quarterly dividend (declared on 22 August 2019)	0.50	826	100%	16 September 2019
2020 first quarterly interim dividend (declared on 17 October 2019)	1.00	1,626	100%	19 November 2019
2020 second quarterly interim dividend (declared on 20 February 2020)	1.00	1,597	100%	18 March 2020
2020 third quarterly interim dividend (declared on 18 May 2020)	1.00	1,593	100%	18 June 2020
		5,642		

5. DIVIDENDS PAID OR PAYABLE (CONTINUED)

Dividend Franking Information

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Franking credits available for shareholders from previous financial years	1,650	3,596
Impact on the franking account of dividends paid during the year	(3,166)	(2,418)
Impact on the franking account of dividends received during the year	2,469	706
Impact on franking account of income tax paid/(received)	–	(234)
Franking account balance at reporting date	953	1,650

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

6. TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Other receivables	94	409
Unsettled trades receivable	1,703	–
Total	1,797	409

Receivables are non-interest bearing and unsecured. Outstanding trades, i.e. "Unsettled trade receivables", are on the terms operating in the investment management industry which usually require settlement within two days of the date of the transaction. None of the receivables are past due or impaired at the end of the reporting period (2020: Nil).

7. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial Assets at Fair Value Through Profit or Loss

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Investment in listed equities	193,477	133,981
Investment in listed unit trusts	427	–
Total financial assets at fair value through profit or loss	193,904	133,981

Disclosed Fair Values

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

8. TRADE AND OTHER PAYABLES

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Unsettled trades payable	1,514	120
Other payables	455	403
Total	1,969	523

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

NOTES TO THE FINANCIAL STATEMENTS

Continued

9. BORROWINGS

The Company has on issue \$27 million unsecured notes with a 5-year term, carrying an interest entitlement of 4.95% per annum. The unsecured notes are due for repayment on 2 December 2024. Terms of the unsecured notes are regulated under a trust deed between the Company and Equity Trustees Limited.

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Opening balance of unsecured notes	26,294	–
Unsecured notes issued in the period	–	27,000
Less issue costs	–	(798)
Add amortisation of costs for period	160	92
At reporting date	26,454	26,294

10. ISSUED CAPITAL

	30 June 2021		30 June 2020	
	No. of shares	\$'000	No. of shares	\$'000
Issued and paid-up capital – ordinary shares	153,236,253	191,142	158,809,641	194,908

Detailed provisions relating to the rights attaching to these shares are set out in the Company's Constitution and the Corporations Act 2001. The detailed provisions relating to the rights attaching to shares under the Constitution and the Corporations Act 2001 are summarised below.

Each share will confer on its holder:

- (a) the right to receive notice of and to attend general meetings of the Company and to receive all financial statements, notices and documents required to be sent to them under the Constitution and the Corporations Act 2001;
- (b) the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none);
- (c) the right to receive dividends;
- (d) the right to receive, in kind, the whole or any part of the Company's property in a winding up, subject to the rights of a liquidator of the Company (with consent of members by special resolution); and
- (e) subject to the Corporations Act 2001 and the ASX Listing Rules, shares are fully transferable.

Movements in Ordinary Share Capital

Date	Details	No. of shares	\$'000
01 July 2019	Opening balance	166,936,029	200,293
	Shares allotted under DRP	1,214,783	742
	Purchase of shares on market for DRP	(1,214,783)	(742)
	Shares bought back	(8,126,388)	(5,385)
30 June 2020	Closing balance	158,809,641	194,908
01 July 2020	Opening balance	158,809,641	194,908
	Shares allotted under DRP	1,449,432	1,037
	Purchase of shares on market for DRP	(1,449,432)	(1,037)
	Shares bought back	(5,718,964)	(3,914)
	Share options exercised	145,576	148
30 June 2021	Closing balance	153,236,253	191,142

10. ISSUED CAPITAL (CONTINUED)

During the 2021 financial year, the Company made a 1-for-3 bonus option issue to eligible shareholders. These bonus options are listed on the ASX under the code NSCOA and give the optionholder the right to acquire new ordinary shares at a price of \$1.02 per share. The bonus options will expire on 28 June 2024.

A total of 145,576 bonus options were exercised and 50,956,489 options remain unexercised as at 30 June 2021.

11. PROFITS RESERVE AND ACCUMULATED LOSSES

(a) Profits Reserve

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Opening balance	23,543	7,620
Transfer from retained earnings	16,638	21,565
Dividends paid	(7,388)	(5,642)
Balance at reporting date	32,793	23,543

To the extent possible under the Corporations Act 2001 and applicable tax laws, the profits reserve is preserved for future dividend payments.

(b) Accumulated Losses

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Balance at the beginning of the year	(102,609)	(82,456)
Transfer to profits reserve	(16,638)	(21,565)
Profit for the year attributable to the members of the Company	51,527	1,412
Balance at reporting date	(67,720)	(102,609)

12. AUDITORS REMUNERATION

	Year ended 30 June 2021 \$	Year ended 30 June 2020 \$
Audit and other assurance services – Deloitte Touche Tohmatsu		
Audit and review of financial reports	56,300	55,000
Total remuneration for audit and other assurance services	56,300	55,000

13. CASH AND CASH EQUIVALENTS

a) Components of Cash and Cash Equivalents

	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
Cash at bank	456	227
	456	227

NOTES TO THE FINANCIAL STATEMENTS

Continued

13. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
Profit for the year attributable to shareholders after tax	51,527	1,412
Adjustments for:		
Change in value of financial assets designated at fair value through profit or loss	(59,923)	7,654
Depreciation and amortisation	160	182
Income tax expense/(benefit) recognised in the Statement of Profit or Loss and Other Comprehensive Income	19,591	(100)
Income tax (paid)/refunded	–	234
Change in assets and liabilities		
Increase in trade and other receivables	(1,418)	(269)
Increase/(decrease) in trade and other payables	1,446	(293)
Net cash provided by operating activities	11,383	8,820

14. KEY MANAGEMENT PERSONNEL

a) Key Management Personnel Compensation

The remuneration of the Company's key management personnel and their related entities for the year ended 30 June 2021 was \$85,000 (2020: \$85,000). There were no shares granted during the reporting period as compensation to the Directors. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

b) Related Party Shareholdings

NAOS Asset Management Limited

The Company has outsourced its investment management function to NAOS Asset Management Limited. As at 30 June 2021, NAOS Asset Management Limited holds 1,158,500 shares (2020: 1,158,500 shares) in the Company. Other than the disclosure at Note 16 and above there was no interest in the Company held by other entities also managed by the key management personnel.

Holdings of Shares by Key Management Personnel

During the period, the relevant interests of the Directors and their related parties in the shares and bonus options of the Company were as follows:

Ordinary shares Year ended 30 June 2021	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll (Chairman)	182,024	12,425	–	194,449
Mr Sebastian Evans (Director)	1,158,500	–	–	1,158,500
Mr Warwick Evans (Director)	556,271	37,973	–	594,244
Mr David Rickards (Director)	317,115	21,648	–	338,763
Ordinary shares Year ended 30 June 2020	Opening balance No of shares	Acquired No of shares	Sold No of shares	Closing balance No of shares
Mr Trevor Carroll (Chairman)	171,951	10,073	–	182,024
Mr Sebastian Evans (Director)	1,158,500	–	–	1,158,500
Mr Warwick Evans (Director)	330,036	226,235	–	556,271
Mr David Rickards (Director)	299,567	17,548	–	317,115

14. KEY MANAGEMENT PERSONNEL (CONTINUED)

b) Related Party Shareholdings (continued)

Holdings of Shares by Key Management Personnel (continued)

Bonus options Year ended 30 June 2021	Opening balance No of bonus options	Issued No of bonus options	Exercised No of bonus options	Closing balance No of bonus options
Mr Trevor Carroll	–	63,861	–	63,861
Mr Sebastian Evans	–	386,166	–	386,166
Mr Warwick Evans	–	195,161	–	195,161
Mr David Rickards	–	111,256	–	111,256

c) Other Transactions Within the Company

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

15. SEGMENT INFORMATION

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

16. RELATED PARTY INFORMATION

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

Management Fees

In return for the performance of its duties as Investment Manager of the Company, the Investment Manager is entitled to be paid a monthly management fee equal to 0.0958% (excluding GST) of the gross value of the portfolio calculated on the last business day of each month representing an annualised management fee of 1.15% (excluding GST) per annum of the average gross value of the portfolio. At its discretion and subject to shareholder approval, the Investment Manager may elect to be paid in shares.

The following management fees were paid or payable to the Investment Manager during the year ended 30 June 2021:

- Management fees of \$1,885,199 (2020: \$1,756,356) (excluding RITC*) were incurred during the year.
- Management fees payable at 30 June 2021 were \$204,854 (2020: \$141,635) (including RITC*).

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

Performance Fees

In the event that the investment portfolio outperforms the Benchmark Index (being the S&P/ASX Small Ordinaries Accumulation Index), the Investment Manager is entitled to an annual performance fee equal to 20% (excluding GST) of the amount the portfolio outperforms the Benchmark Index. No performance fee is payable if the portfolio underperforms the Benchmark Index. Any underperformance to the Benchmark Index is carried forward to future performance calculation periods and must be recouped before the Investment Manager is entitled to a performance fee.

No performance fees were paid or payable to the Investment Manager for the year ended 30 June 2021 (2020: \$Nil).

In addition, the Company has a services agreement with the Investment Manager to provide the use of premises and facilities, company secretarial, administrative, financial and accounting services. For the year ended 30 June 2021 the fees paid to the Investment Manager were \$180,000 (2020: \$180,000).

NOTES TO THE FINANCIAL STATEMENTS

Continued

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

a) Credit Risk

Credit risk represents the risk that the Company will incur financial loss as a result of a failure by a counterparty to discharge a contractual obligation to a financial instrument. The Investment Manager monitors the credit worthiness of counterparties on an ongoing basis and evaluates the credit quality of all new counterparties before engaging them.

The maximum exposure to credit risk on financial assets, excluding investments of the Company which have been recognised in the Statement of Financial Position, is the carrying amount net of any provision for impairment of those assets.

The Investment Manager is responsible for ensuring that counterparties are of sufficient quality to minimise any individual counterparty credit risk. The majority of the Company's receivables arise from unsettled trades at year end which are settled two days after trade date. Engaging with counterparties via the Australian Securities Exchange facilitates the Company in both mitigating and managing its credit risk. The exposure to credit risk for cash and cash equivalents is considered to be low as all counterparties (National Australia Bank) have a rating of A or higher. None of the financial assets exposed to a credit risk are overdue or considered to be impaired.

b) Market Risk

Market risk is the risk that the fair value of future cash flows will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity prices and other price risks and liquidity. Market risk is managed and monitored on an ongoing basis by the Investment Manager.

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

(i) Interest Rate Risk

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

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

	Floating interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2021			
Assets			
Cash and cash equivalents	456	–	456
Receivables	–	1,797	1,797
Financial assets at fair value through profit or loss	–	193,904	193,904
Total assets	456	195,701	196,157
Liabilities			
Payables	–	1,969	1,969
Total liabilities	–	1,969	1,969
Net exposure	456	193,732	194,188

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Market Risk (continued)

(i) Interest Rate Risk (continued)

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

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

	Change in basis points increase/ (decrease)	Impact on operating profit/Net assets attributable to shareholders \$'000
30 June 2021		
AUD interest rate	25bps/(25bps)	1/(1)
30 June 2020		
AUD interest rate	25bps/(25bps)	1/(1)

(ii) Price Risk

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

As at 30 June, a 10% sensitivity would have had an impact in the Company's Statement of Profit or Loss and Other Comprehensive Income and net assets attributable to shareholders as shown in the table below:

	Impact on operating profit/Net assets attributable to shareholders	
	–10% \$'000	+10% \$'000
30 June 2021	(19,390)	19,390
30 June 2020	(13,398)	13,398

NOTES TO THE FINANCIAL STATEMENTS

Continued

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Market Risk (continued)

ii) Price Risk (continued)

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

Industry	% of portfolio	
	30 June 2021	30 June 2020
Financials	28.20%	13.84%
Information Technology	23.61%	31.26%
Construction Materials	21.98%	16.99%
Telecommunications	17.18%	0.02%
Real Estate	6.73%	7.45%
Media	2.18%	10.74%
Travel & Leisure	0.11%	1.61%
Healthcare	0.01%	–
Commercial & Professional Services	–	18.07%
Industrials	–	0.02%
Total	100%	100%

c) Liquidity Risk

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

The Company's cash receipts depend upon the level of sales of securities, dividends and interest received or other capital management initiatives that may be implemented by the Board from time to time. The Investment Manager monitors the Company's cash flow requirements daily by reference to known sales and purchases of securities, dividends and interest to be paid or received. Should these decrease by a material amount, the Company can alter its cash outflows as appropriate. The assets of the Company are largely in the form of tradable securities which (if liquidity is available) can be sold on the market if necessary.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from 30 June 2021 and 30 June 2020 to the contractual maturity date.

	<1 year \$'000	>1 year to 2 years \$'000	2 to 5 years \$'000	Total \$'000	Carrying Amount \$'000
30 June 2021					
Trade and other payables	1,969	–	–	1,969	1,969
Borrowings	–	–	27,000	27,000	26,454
Total	1,969	–	27,000	28,969	28,423
30 June 2020					
Trade and other payables	523	–	–	523	523
Borrowings	–	–	27,000	27,000	26,294
Total	523	–	27,000	27,523	27,523

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

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

Level 1:

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

Level 2:

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

Level 3:

Financial instruments that have been valued, in whole or in part, by using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable valuation inputs are determined based on the best information available, which might include the entity's own data, reflecting its assumptions as well as best practices carried out or undertaken by other market participants. These valuation techniques are used to the extent that observable inputs are not available.

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

Financial Assets at Fair Value Through Profit or Loss

30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Investment in listed equities	193,477	–	–	193,477
Investment in unit trusts	427	–	–	427
Total financial assets designated at fair value through profit or loss	193,904	–	–	193,904

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

Financial Liabilities at Fair Value Through Profit or Loss

There are no financial liabilities designated at fair value through profit or loss as at 30 June 2021 and 30 June 2020.

e) Capital Management

The Company's objectives for managing capital are:

- to achieve consistent returns, including regular payment of dividends while safeguarding capital by investing in a concentrated portfolio, and closely monitoring the performance of the underlying investments.
- to maintain sufficient liquidity to meet the ongoing expenses of the Company; and
- to maintain sufficient size to make the operation of the Company cost efficient.

The Board manages the Company's capital through share placements, share purchase plans, option issues, unsecured notes issues, the Dividend Reinvestment Plan, share buybacks and the distribution of dividends to shareholders. These capital management initiatives will be used when deemed appropriate by the Board. The Company is not subject to externally imposed capital requirements.

18. EARNINGS PER SHARE

	Year ended 30 June 2021 cents	Year ended 30 June 2020 cents
Basic and diluted earnings per share	33.12	0.87
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	155,587,764	161,591,522
	\$'000	\$'000
Net profit used in the calculation of basic and diluted earnings per share	51,527	1,412

19. COMMITMENTS AND CONTINGENCIES

There are no commitments and contingencies as at 30 June 2021 (30 June 2020: Nil).

20. SUBSEQUENT EVENTS

On 19 August 2021, the Company declared a fully franked quarterly dividend of 1.25 cents per share payable on 20 September 2021.

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

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- The financial statements and notes are in accordance with the Corporations Regulations 2001 including compliance with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company for the financial year ended 30 June 2021;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 (c) to the financial statements;
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the Directors have received the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to section 295 (5) of the Corporations Act 2001.

On behalf of the Board



Sebastian Evans
Director

19 August 2021

ADDITIONAL INFORMATION

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

INVESTMENT PORTFOLIO

As at 30 June 2021 the Company had the following investments:

Big River Industries Limited	Gentrack Group Limited
BSA Limited	MNF Group Limited
Cogstate Limited	Objective Corporation Limited
COG Financial Services Limited	Over The Wire Holdings Limited
Enero Group Limited	Urbanise.com Limited
Eroad Limited	360 Capital REIT
Eureka Group Holdings Limited	3P Learning Limited
Experience Co Limited	

During the financial year ended 30 June 2021, the Company had 964 (2020: 865) transactions in investment securities. Total brokerage fees incurred during the year ended 30 June 2021 were \$798,381 (2020: \$622,179).

20 LARGEST SHAREHOLDERS

Details of the 20 largest ordinary shareholders along with their respective holdings as at 31 July 2021.

Shareholders	Ordinary shares held	% of issued shares
Citicorp Nominees Pty Limited	10,847,036	7.11%
Bond Street Custodians Limited	5,785,492	3.79%
J.P. Morgan Nominees Australia Pty Limited	5,765,524	3.78%
Gold Tiger Investments Pty Ltd	2,175,000	1.43%
BNP Paribas Nominees Pty Ltd	1,236,429	0.81%
Beck Havas Pty Ltd	1,180,000	0.77%
NAOS Asset Management Limited	1,158,500	0.76%
HSBC Custody Nominees (Australia) Limited	1,063,109	0.70%
Mr James Vincent Chester Guest & Mrs Sarah Louise Guest	985,637	0.65%
Somoke Pty Limited	956,664	0.63%
Angus Mac Pty Ltd	891,764	0.61%
Mr James Vincent Chester Guest & Mrs Sarah Louise Guest	873,575	0.58%
Tendword Pty Ltd	750,000	0.49%
Equitas Nominees Pty Limited	648,498	0.43%
G H Kluge & Sons Ltd	600,000	0.39%
Mrs Ida Rubin & Mr Ian Rubin & Mr Yuly Rubin	600,000	0.39%
W W E Investments Pty Ltd	594,244	0.39%
Mrs Tracy Fraser	500,000	0.33%
Lactic Investment Managers Pty Ltd	500,000	0.33%
Keiser Investments Pty Ltd	500,000	0.33%
Total	37,611,472	24.70%

SUBSTANTIAL SHAREHOLDERS

Shareholders	Ordinary shares held	% of issued shares
Citicorp Nominees Pty Limited	10,847,036	7.11%

DISTRIBUTION OF ORDINARY SHARES

Analysis of ordinary shares by size of shareholders as at 31 July 2021.

Category	Number of shareholders	Ordinary shares held	% of issued shares
1–1,000	427	152,779	0.1
1,001–5,000	770	2,362,606	1.55
5,001–10,000	643	5,172,304	3.39
10,001–100,000	2,037	68,423,522	44.84
100,001 and over	232	76,483,061	50.12
Totals	4,109	152,594,272	100.00

20 LARGEST OPTIONHOLDERS

Details of the 20 largest optionholders along with their respective holdings as at 31 July 2021.

Optionholders	Options held	% of issued options
Bond Street Custodians Limited	2,000,000	3.93%
J.P. Morgan Nominees Australia Pty Limited	1,996,684	3.92%
Munro Investments Pty Ltd	1,177,488	2.31%
Gold Tiger Investments Pty Ltd	725,000	1.42%
Mr Ross Dennis Berndt & Mrs Judith Anne Berndt	443,465	0.87%
Mr Adrian Ken Way Lee	420,748	0.83%
Mr Timothy William Ingles	401,000	0.79%
Beck Havas Pty Ltd	393,333	0.77%
NAOS Asset Management Limited	386,166	0.76%
BNP Paribas Nominees Pty Ltd	383,414	0.75%
Carter Haywood Pty Ltd	372,043	0.73%
HSBC Custody Nominees (Australia) Limited	370,285	0.73%
Mr James Vincent Chester Guest & Mrs Sarah Louise Guest	323,703	0.64%
Mrs Ida Rubin & Mr Ian Rubin & Mr Yuly Rubin	316,680	0.62%
Somoke Pty Limited	314,188	0.62%
Angus Mac Pty Ltd	306,484	0.60%
Mr James Vincent Chester Guest & Mrs Sarah Louise Guest	297,254	0.58%
Mr Andrew Ian Penney & Ms Nanette Claire Fox & Ms Carolyn Anne Logan	271,450	0.53%
Mr Charles Akrill Mitchell	271,100	0.53%
Ms Patricia Ann Paterson	262,515	0.52%
Total	11,433,000	22.45%

DISTRIBUTION OF OPTIONHOLDERS

Analysis of options by size of optionholders as at 31 July 2021.

Category	Number of optionholders	Options held	% of issued options
1–1,000	678	315,321	0.62
1,001–5,000	1,283	3,583,305	7.04
5,001–10,000	735	5,449,146	10.70
10,001–100,000	982	24,364,571	47.86
100,001 and over	61	17,195,617	33.78
Totals	3,739	50,907,960	100.00

VOTING RIGHTS

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

ASX LISTING

Quotation has been granted for all ordinary shares and bonus options (ASX code: NSC and NSCOA respectively) of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

BUYBACK

For the financial year ended 30 June 2021 the Company bought back a total of 5,718,964 shares for a consideration of \$3,914,408 (2020: The Company bought back a total of 8,126,388 ordinary shares for consideration of \$5,384,826).

UNMARKETABLE PARCELS

As at 31 July 2021 the number of shareholdings held in less than marketable parcels was 267.

UNQUOTED SECURITIES

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

RESTRICTIONS ON SHARES

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

CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Rajiv Sharma
Sebastian Evans

REGISTERED OFFICE

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

INVESTMENT MANAGER

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

CONTACT DETAILS

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E: enquiries@naos.com.au
W: www.naos.com.au

SHARE REGISTRY

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 200
Telephone: 1300 737 760

AUDITOR

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

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