ANNUAL REPORT 2007

KATANA CAPITAL LTD

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Katana Capital will combine its listed investment company structure with the proven ability of its Manager ("Classic Capital Ltd") to provide investors with access to comprehensive investment techniques aimed at providing strong capital and income returns.

The Company and the Manager share similar investment philosophies. The role of the Company is to assess and monitor the Manager and liaise with the Manager with respect to its Mandate as detailed in the Management Agreement. In addition, the Company will seek to identify appropriate investment opportunities for review by the Manager.

CORPORATE DIRECTORY

Katana Capital Limited
ABN 56 116 054 301

Directors

Dalton Gooding
Peter Wallace
Derek La Ferla
Giuliano Sala Tenna

Company Secretary

Gabriel Chiappini

Registered Office

Level 37, Exchange Plaza
2, The Esplanade
Perth, Western Australia 6000
Telephone (08) 9326 7672
Facsimile (08) 9326 7676
www.katanacapital.com.au

Share Registry

Computershare Investor Services Pty Ltd
Level 2 45 St George's Terrace,
Perth WA 6000
Telephone (08) 9323 2000
Facsimile (08) 9323 2033

Auditor

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000

ASX Code: KAT

Our investment philosophy

As an 'All Opportunities' fund, the underlying goal of the Manager is to assess the risk adjusted return of every potential opportunity identified by the Manager. The Manager's intended approach includes selectively and modestly taking higher-risk positions, provided that the potential return exceeds the additional risk – preferably in terms of both value and time.

Whilst the Manager intends to combine the best principles of value investing, fundamental and technical analysis, it does not wish to be constrained by the constructs of any one approach. The key to the long-term success of the Company is seen as the capacity of the Manager to integrate the best principles of each discipline with the extensive and varied experiences of the Manager. This is achieved by encouraging flexibility and adaptability, but within the confines of an overall framework that controls risk.

HIGHLIGHTS

In percentage returns, the portfolio yielded a gross investment return of 49% before operating expenses and tax. This compared favourably to the Company's stated benchmark – the All Ordinaries index – which returned 25% over the same period.

INVESTMENT INCOME TOTALLING APPROXIMATELY $12.60M

NET PROFIT AFTER TAX OF $7,510,531

EARNINGS PER SHARE FOR THE PERIOD ENDED 30 JUNE 2007 WAS 30.38 CENTS

CHAIRMAN'S LETTER

Dear Shareholder

I am pleased to report that in its second year of operations since listing on the ASX, Katana Capital Limited has reported a net profit after tax of $7.510m for the year ended 30 June 2007. The earnings per share for the year ended 30 June 2007 was 30.38 cents.

Our NTA per share after tax increased to $1.12 reflecting the strong result for the year. During the year, the company increased its funds under management as a result of its net earnings after tax of $7.510m and by way of 20,284,800 listed options converted at an exercise price of $0.95.

The Company together with its Fund Manager ("Classic Capital Pty Ltd") are satisfied with the performance of the portfolio, with investment income totalling approximately $12.6m. The majority of this income was generated from equity holdings, with the model of investing in strong IPO's being successful.

The ability to provide shareholders with unique access to new issues has been a key focus of the Company's business model, and the Fund Manager believes that the company will continue to leverage off well supported IPO's.

On behalf of the Board of Directors, I thank you for your support throughout the year and I look forward to your continued support.

Yours sincerely

Dalton Gooding
Chairman

FUND MANAGER'S

INVESTMENT REPORT

CLASSIC CAPITAL PTY LTD AS MANAGER ('FUND MANAGER') FOR KATANA CAPITAL LIMITED ('COMPANY') IS PLEASED TO PRESENT ITS REPORT ON THE PERFORMANCE OF THE COMPANY'S PORTFOLIO FOR THE TWELVE MONTHS ENDED 30 JUNE 2007.

OVERVIEW

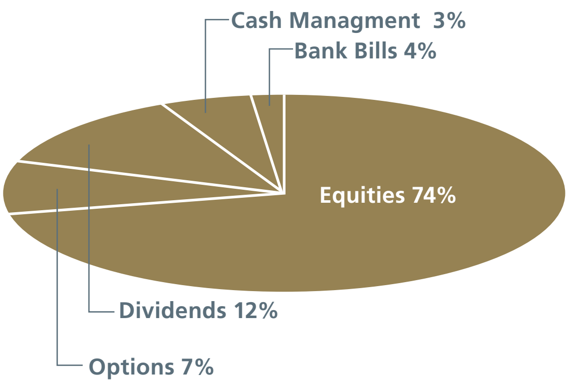
Classic Capital Pty Ltd as manager ('Fund Manager') for Katana Capital Limited ('Company') is pleased to present its report on the performance of the Company's portfolio for the twelve months ended 30 June 2007.

PERFORMANCE OF THE PORTFOLIO

The Fund Manager is pleased with the performance of the portfolio, with investment income totalling approximately $12.60m. The majority of these returns were generated from equity holdings, which have been spread over a well diversified portfolio.

In percentage returns, the portfolio yielded a gross investment return of 49% before operating expenses and tax. This compared favourably to the Company's stated benchmark – The All Ordinaries index – which returned 25% over the same period.

Income Generation



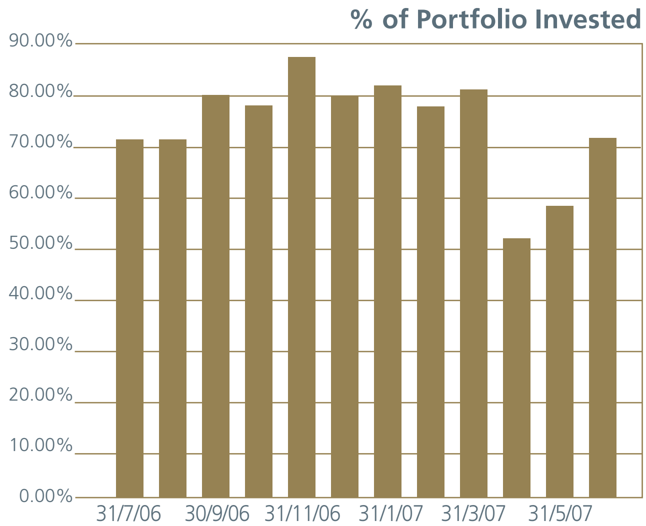
HIGHLIGHTS

During the ten months to April 30th, the Fund moved progressively towards full investment, ahead of the anticipated exercise of the $0.95 31 May 2007 listed options. The final amount received from the exercise of the options was $19.27m which represented some 95% of the total on issue. The Fund Manager would like to take this opportunity to express their gratitude to the shareholders who chose to support the Fund Manager's investment philosophy and expertise.

The Fund's single largest position during the financial year was the investment in Mineral Resources Ltd (ASX code MIN), which was made in July 2006. The initial entry price was $0.90 and at the end of the 2007 financial year the closing price was $3.38 per share. The Manager's bias towards the resource sector and resource servicing companies has significantly contributed to the Fund's out performance over the All Ordinaries index.

The Board announced a 2 cent ordinary dividend and a 2 cent special dividend in March 2007 and on 19 September 2007 declared a final dividend of 2.5 cents per share.

The Fund Manager maintained sizeable cash balance post completion of the exercise of the $0.95 31 May 2007 Options. This was in the most part a reflection of the limited number of quality opportunities available in the market leading up to the financial year end.



Summary of Investments as at 30th June 2007

Asset Class	30 June 2007 Balance	% of Portfolio
Equities	$38,083,334	74.20%
Cash Management	$3,245,298	6.32%
Bank Bills	$9,994,793	19.48%
	$51,323,425	100.00%

As at the close of the 2007 financial year, the portfolio had cash reserves of approximately $13.24m or 25.8% of the total value.

The Fund Manager believes that significant value still remains in the resource sector and the resource servicing sector, and accordingly has taken overweight positions in Mineral Resources Ltd, BHP Billiton Limited, RIO Tinto Limited and Jubilee Mining Limited. The Manager has also taken an overweight position in Metcash Ltd due to the changing landscape in the retail sector (Coles Group takeover) and the fact that Metcash has a strong sales bias towards the W.A. economy.

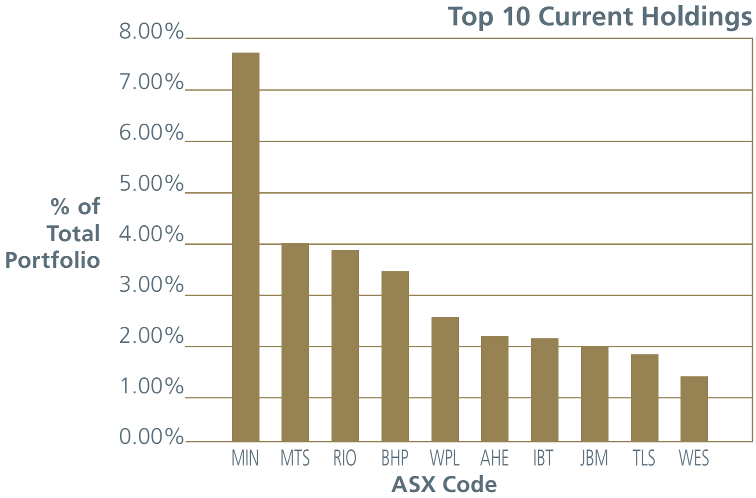
The recent strength in the stockmarket leading up to the end of the financial year did not offer many (covered) option writing opportunities, with premiums not offering sufficient reward to warrant undertaking this type of strategy.

The Fund Manager still remains bullish on the medium term outlook for the price of oil. Woodside Petroleum was added to the portfolio in February/March when the oil price was hovering around US$60 per barrel.
During the financial year the Fund Manager participated in a number of Initial Public Offerings ("IPO's") and placements. The Fund Manager's ability to provide shareholders with access to new issues has been a key focus of the Company's business model and believes the outlook and accessibility to these opportunities is growing. The Fund Manager continues to expand the network of corporate and institutional contacts, to maximise the access to corporate opportunities.

As at the year end the portfolio had grown to contain over 65 companies. It is also worth noting that of the top 10 stock holdings by size, half of the companies are resident in the S&P ASX20. Both of these factors are particularly pleasing, as they indicate that the 49% investment return for the year has not been obtained at the expense of quality.

Stocks held as at 30 June 2007

A I Ltd $90,000	
Adcorp Australia Ltd	$308,286
Aditya Birla Minerals Limited	$213,000
Alara Uranium Limited	$136,528
ANZ Limited	$724,750
Arc Energy Limited	$455,473
Austbrokers Holdings Limited	$217,500
Austin Engineering limited	$547,500
Automotive Holdings Group Limited	$1,305,000
Avoca Resources Limited	$336,700
Babcock & Brown Infrastructure Group	$430,000
BHP Limited	$1,855,000
Boom Logistics Limited	$169,000
Centrepoint Alliance Limited	$328,500
CO2 Group	$76,000
Cootes Industrial Ltd	$279,932
Crossland Uranium Mines Limited	$31,155
Emeco Holdings Limited	$327,000
Fone Zone Group Limited	$234,500
Great Southern Limited	6.4%
Convertible Note	$202,600
Great Southern Limited	7.75%
Convertible Note	$220,000
Greencross Limited	$740,000
GWA International	$219,000
Halcygen Pharmaceuticals Limited	$122,000
HFA Holdings Limited	$381,000
Insurance Australia Group Limited	5.63%
Convertible Preference	$781,682
IBT Education Limited	$1,298,500
IMF Limited	$280,000
Incremental Petroleum Limited	$268,000
Innamincka Petroleum Limited	$105,875
IWL Limited	$720,000
Jabiru Metals Limited	$411,295
Jubilee Mines NL	$1,111,600
Liontown Resources Limited	$130,000
Lycopodium Limited	$73,600



Macquarie Bank Limited	$763,200
Mermaid Marine Australia Limited	$193,408
Metcash Limited	$2,110,300
Mineral Resources Limited	$4,056,000
Monarch Gold Mining Company Limited	$751,159
Mt Gibson Iron Limited	$396,000
New Hope Corporation Limited	$324,000
Orion Equities Limited	$731,700
Overland Resources Limited	$48,910
Oxiana Limited	$88,000
Peel Exploration Limited	$198,000
Platinum Asset Management Limited	$841,469
Progen Pharmaceuticals Ltd	$203,387
Progen Pharmaceuticals Ltd Options	$11,448
Resolute Mining Limited	$217,500
Rinker Group Limited	$37,540
Rio Tinto Limited	$1,940,332
ROC Oil Company Limited	$446,875
SAI Global Limited	$73,400
Santos Limited	$414,300
Seven Network Limited	$342,600
SP Telemedia Limited	$178,000
Strike Resources Ltd	$626,200
Suncorp-Metway Limited	$574,607
Tap Oil Limited	$273,000
Tattersall's Limited	$469,000
Telstra Corporation Ltd	$1,008,470
Tomahawk Energy Limited	$79,500
Tri Origen Minerals Ltd	$68,000
Webjet Limited	$312,500
Wesfarmers Limited	$910,200
Willmot Forests Limited	$163,000
Woodside Petroleum Limited	$1,371,000
Worley Parsons Limited	$376,697
Zinifex Limited	$559,500
	$36,290,179

Activity Since Balance Date and Outlook

Of note since balance date is the position that the Company has established in Global Construction Services Limited (ASX code GCS), as released to the ASX on 14 August 2007. The Company obtained the position through the IPO at an issue price of $1.00 per share. Shares in GCS closed at $1.52 on the 20 September 2007.

The US sub-prime mortgage crisis led to sharp falls in global sharemarkets in late July/early August. The dual fears of tightening credit conditions and concerns the US housing sector / US consumer demand would slump, were the catalysts for a much anticipated (and indeed much needed) correction. As at the time of writing, the total correction from peak to trough reached 15% on an intra-day basis.

The Fund Manager believes that the current correction has been exaggerated by distressed selling from hedge funds and collateral margin calls on lending accounts and other exotic leveraged instruments. Accordingly, the Manager has chosen to capitalise on the opportunities presented by this weakness and has recently invested 2/3 of the remaining cash reserves.

The Fund Manager is more cautious looking forward considering we are now fours years into the current bull market, interest rates are rising and corporate profit growth is easing. Stock selection will again play an integral part to the success of the portfolio.

However, the Fund Manager remains cautiously positive on the medium term outlook for the Australian Market given the:

- Continuing belief that the commodity price cycle has longevity
- Global economic growth remains robust
- The Australian Share market p/e is trading below its 10 year average
- Strength of corporate balance sheets; average company gearing is at an historically low level, supporting the capacity for increased dividends, special dividends, capital returns, share buybacks and corporate mergers/acquisitions
- (slowing but) Rising corporate earnings.

Accordingly, the Fund Manager looks forward to the coming 12 months.

Brad Shallard
Fund Manager
Classic Capital Pty Ltd

Romano Sala Tenna
Fund Manager
Classic Capital Pty Ltd

KATANA
CAPITAL LTD

FINANCIAL STATEMENTS

30 JUNE 2007

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT WITH RESPECT TO THE RESULTS OF KATANA CAPITAL LIMITED (THE "COMPANY" OR "KATANA CAPITAL") FOR THE PERIOD ENDED 30 JUNE 2007 AND THE STATE OF AFFAIRS OF THE COMPANY AT THAT DATE.

DIRECTORS

The names and details of the Company's directors and interests in the shares and options of the company and related bodies corporate during the financial year and until the date of this report, are as follows. Directors were in office for the entire financial period unless otherwise stated.

Dalton Leslie Gooding BBus, FCA
(Non-executive Chairman)

Mr Gooding was appointed to the Board on 11 November 2005. Mr Gooding, formerly a long-standing partner at Ernst & Young, is a Fellow of the Institute of Chartered Accountants in Australia. He is currently a partner of Gooding Pervan and advises to a wide range of businesses with particular emphasis relating to taxation and accounting issues, due diligence, feasibilities and general business advice. Mr Gooding also has a number of other directorships of companies in many different segments of business. During the past three years Mr Gooding has also served as a director of the following other listed companies:

- Australian Wine Holdings Limited*
- SIPA Resources Limited*
- Clinical Cell Culture Limited*
- Visiomed Group Limited*

* denotes current directorship

Peter Wallace SF Fin, FAICD, AFAIM
(Non-executive Director)

Mr Wallace was appointed to the board on 19 September 2005. Mr Wallace has had 39 years in the Banking and Finance industry with experience gained in all aspects of debt and equity raising. Past Executive positions held include COO of a major Regional Bank as well as Chief Credit Officer and other General Management roles. Most recently has directed the capital raisings for several large Public companies as well as providing a variety of Corporate Advisory services to a wide range of companies, both private and publicly owned. During the past three years Mr Wallace has also served as a director of the following other listed companies:

- Evans and Tate Limited
- Paladio Group Limited*
- RuralAus Investments Limited*
- Tethyan Copper Company Limited

* denotes current directorship

Derek La Ferla BA B Juris LLB
(Non-executive Director)

Mr La Ferla was appointed to the Board on 19 September 2005. Mr La Ferla is a long standing corporate lawyer in Perth, he is currently a partner at Deacons and is the business unit leader for the Perth Corporate group.

Mr La Ferla's areas of practice include corporate governance and advice, capital raising and mergers and acquisitions. He acts for a wide range of clients including listed public companies, stockbroking houses, venture capital funds and large unlisted public and private companies.

Giuliano Sala Tenna BCom, FFIN, GAICD
(Non-executive Director)

Mr Sala Tenna was appointed to the Board on 19 September 2005.

Mr Sala Tenna has worked in the Finance Industry for over 10 years in various fields and is currently the National Manager – Institutional Sales with HFA Asset Management, an Australian based fund of hedge fund manager with over $3.8 billion assets under management.

DIRECTORS' REPORT

Mr Sala Tenna has completed a Bachelor of Commerce degree at Curtin University of Technology with a double major in Economics and Finance graduating with Distinctions, the Graduate Diploma in Financial Planning at the Financial Services Institute of Australasia, the Company Directors Course at the Australian Institute of Company Directors and is an ASX Derivatives Accredited Adviser.

Mr Sala Tenna is a Member of the Golden Key National Honour Society, a Graduate Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia

COMPANY SECRETARY

Gabriel Chiappini BBus, CA, GAICD

Mr Chiappini has been Company Secretary since 14 November 2005. Mr Chiappini has worked in Chief Financial Officer and Company Secretarial roles in both local and international environments and also holds the position of Company Secretary with several ASX listed and unlisted companies. Mr Chiappini has experience in diverse and varied industry sectors including the following, Investment Banking (UK), Property Development & Investment (UK), Telecommunications (Australia) and Biotechnology (Australia).

Interests in the shares and options of the Company

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Number of (i) Ordinary Shares	*Number of Options over*
Ordinary Shares		
D L Gooding	100,000	250,000
P Wallace	300,000	250,000
D La Ferla	100,000	250,000
G Sala Tenna	100,000	250,000

(i) Options were issued in December 2006 following approval at the shareholders Annual General Meeting held on 30 November 2006. The options are unlisted and have an exercise price of $1.10 and expire on 19 December 2009. Options were fully vested when issued.

EARNINGS PER SHARE

Earnings per share for the current year was 30.38 cents per share (2006: 7.1 cents). The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 24,722,986 (2006: 15,001,465).

DIVIDENDS

The following dividends have been paid by the company or declared by the directors since the commencement of the financial year ended 30 June 2007:

		2007 $	*2006 $*
(a)	out of the profits for the year ended 30 June 2006 - final dividend for 2006 of 1.5 cents per share paid on 31 October 2006 (31.9% franked)	321,000	-
(b)	out of the profits for the year ended 30 June 2007 - interim dividend of 2.0 cents per share paid on 14 May 2007 (37% franked)	740,487	-
	- special dividend of 2.0 cents per share paid on 14 May 2007 (37% franked)	740,487	-
	- final dividend for 2007 of 2.5 cents per share declared on 19 September 2007 (100% franked)	1,042,120	-

CORPORATE INFORMATION

The company was incorporated on 19 September 2005. During the 30 June 2007 financial year it incorporated a wholly owned subsidiary – Kapital Investments (WA) Pty Ltd.

Katana Capital Limited is incorporated and domiciled in Australia.

The registered office is located at 2 the Esplanade , PERTH , WA, AUSTRALIA, 6000.

Principal Activity
The principal activity of the Company is that of an Investment Company with an 'all opportunities' investment strategy.

Employees
As at 30 June 2007 the Company did not have any full time employees.

OPERATING AND FINANCIAL REVIEW

Company Overview
Katana Capital was incorporated in September 2005 with the aim of combining its listed investment structure with the proven ability of its Fund Manager (Classic Capital Limited) to provide investors with access to comprehensive investment techniques aimed at providing strong capital and income returns.

The Fund Manager is pleased with the performance of the portfolio, with investment income totalling approximately $12.60m. The majority of these returns were generated from equity holdings, which have been spread over a well diversified portfolio.

In percentage returns, the portfolio yielded a gross investment return of 49% before operating expenses and tax. This compared favourably to the Company's stated benchmark - the All Ordinaries index – which returned 25% over the same period.

Operating Results for the Year
The profit before tax for the year was $10,538,992 (2006: $1,439,945) and profit after tax for the year was $7,510,531 (2006: $1,060,378).

Operating costs for the year were kept to a minimum, with administration costs (exclusive of Fund Manager's fee) coming in at 1.03% of funds under management.

Investments for future performance
Of note since balance date is the position that the Company has established in Global Construction Services Limited (ASX code GCS), as released to the ASX on 14 August 2007. The Company obtained the position through the IPO at an issue price of $1.00 per share. Shares in GCS closed at $1.36 on the 22 August 2007.

The Manager believes that the current correction has been exaggerated by distressed selling from hedge funds and collateral margin calls on lending accounts and other exotic leveraged instruments. Accordingly, the Manager has chosen to capitalise on the opportunities presented by this weakness and has recently invested 2/3 of the remaining cash reserves.

The Manager is more cautious looking forward considering we are now fours years into the current bull market, interest rates are rising and corporate profit growth is easing. Stock selection will again play an integral part to the success of the portfolio.

However, the Manager remains cautiously positive on the medium term outlook for the Australian Market given the:

- Continuing belief that the commodity price cycle has longevity
- Global economic growth remains robust
- The Australian Share market p/e is trading below its 10 year average
- Strength of corporate balance sheets; average company gearing is at an historically low level, supporting the capacity for increased dividends, special dividends, capital returns, share buybacks and corporate mergers/acquisitions
- (slowing but) Rising corporate earnings.

Capital Structure
During the year 20,284,800 listed options were converted into 20,284,800 fully paid ordinary shares at $0.95 each.

Cash from Operations
Net cash outflows used in operations was $13,062,344 during the year which reflects the Company's investment into the Australian equities market. Going forward the company will continue to invest the remaining cash reserves from its initial period as well as commencing to deploy the $19,270,560 raised through the conversion of 20,284,800 listed options.

Net cash flows for the financial year ending 30 June 2008 are expected to increase subject to the Company continuing to take advantage of opportunities within the Australian equities market and the general performance of the market.

DIRECTORS' REPORT

Liquidity and Funding
The Company foresees no need to raise additional equity and will use its remaining cash reserves to invest into the Australian equities market.

Risk Management
The Board is responsible for overseeing the establishment and implementation of an effective risk management system and reviewing and monitoring the Company's application of that system.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the Board, with the assistance from the Fund Manager as required. The Board together with the Fund Manager is responsible for all matters associated with risk management.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the company raised $19,270,560 through the conversion of 20,284,800 listed options.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 19 September 2007 the company declared a final dividend for the 30 June 2007 financial year of 2.5 cents per share. Besides the final dividend declaration, the Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operations of the company or the results of those operations, or the state of affairs of the company in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company continues to focus on implementing its investment strategy in accordance with the Investment Mandate pursuant to the Classic Capital agreement:

- Achieve a pre-tax return which outperforms the ASX All Ordinaries Index; and
- Preserve the capital invested.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The principal activities of the Company are not subject to any particular or significant environmental regulations.

SHARE OPTIONS
Unissued Shares

There were 1,000,000 unlisted options as at the date of this report expiring 19 December 2009 with an exercise price of $1.10. These options were issued to the directors of the company as approved by shareholders at the Annual General Meeting in November 2006.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of options

During the financial year 20,284,800 options were exercised to acquire 20,284,800 fully paid ordinary shares in the Company.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has paid premiums in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies that cover all directors and officers of the Company. The policy conditions preclude the Company from any detailed disclosures.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors of Katana Capital. Katana Capital at this early stage of its development does not employ executive directors and does not have a Managing Director or a Chief Executive Officer. The Company has outsourced the management of the investment portfolio to the Fund Manager, Classic Capital Ltd. Classic Capital Ltd reports directly to the board and is invited to attend all board meetings to present its investment strategy and to discuss and review the financial performance of the Company.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors. To prosper, the Company must attract, motivate and retain skilled non-executive directors.

The remuneration policy is not linked to company performance.

Remuneration Committee

The Company does not have a remuneration committee. The Board of Directors acts as the Remuneration Committee and is responsible for determining and reviewing compensation arrangements for the Company. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis, by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At present the aggregate remuneration totals $200,000 per year in respect of fees payable to non-executive directors. This amount was approved by shareholders at the annual general meeting held on the 30 November 2006.

The amount of aggregate remuneration, including the issue of options sought to be approved by shareholders and the manner in which it is apportioned amongst directors, is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

There are no performance conditions attached to the option issued as the options are considered to be form part of the directors' remuneration package and have been issued to attract and retain quality board members. The board considers that the majority of the company's performance lies with the fund manager. Each director receives a fee for being a director of the Company and includes attendance at board and committee meetings. Any additional services provided are charged at a daily rate agreed in advance by the Chairman.

The remuneration of non-executive directors for the year ended 30 June 2007 is detailed in Table 1 of this report.

Officer remuneration

The company secretary is considered to be an officer of the company, the board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain the company secretary, whilst incurring a cost which is acceptable to shareholders. The fees paid to the company secretary for normal services is based on a fixed monthly remuneration. Fees remunerated outside of the company secretary's normal services are remunerated on an hourly basis and approved by the board.

Senior manager and executive director remuneration

Objective

As previously noted the Company at present does not employ any Executive Directors or Senior Management. If the Company chooses in the future to employ Executive Directors the Company will review the remuneration packages.

Structure

As previously noted the Company does not currently employ any executive directors or senior management, however the board will determine the level and make-up of executive remuneration. To assist in achieving the Company's objectives the board will link the nature and amount of officers' emoluments to the Company's

DIRECTORS' REPORT

REMUNERATION REPORT CONTINUED

financial and operational performance. At the time of employing either Executive Directors or Senior Management, then their Remuneration will consist of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short Term Incentive (STI); and
  - Long Term Incentive (LTI)

Employment Contracts
As noted above the Company does not currently employ any Executive Directors or Senior Management, it does however have an agreement in place with Classic Capital Ltd to provide the Company with investment management services.

Options granted as part of remuneration for the year ended 30 June 2007

There were 1,000,000 options issued to directors as part of their remuneration package, please refer to page 10 under the heading "Interests in the shares and options of the Company", for details relating to options issued to directors as approved by shareholders at the Annual General Meeting held in November 2006.

Table 1: Directors' & officers remuneration for the period ended 30 June 2007

		Short-term benefits			*Post Employ-ment*	*Equity*	*Other*	*Total*		
		Salary & Fees $	*Other $*	*Cash STI $*	*Super-annuation $*	*Options $*	*Termin-ation $*	*$*	*% Performance related*	*% Remuneration consisting of options*
D L Gooding	2007 2006	50,000 35,107	- -	- -	4,500 3,159	25,275 -	-	79,775 38,266	- -	32 -
P Wallace	2007 2006	30,000 23,500	- -	- -	2,700 2,115	25,275 -	- -	57,975 25,615	- -	44 -
D La Ferla	2007 2006	30,000 23,500	- -	- -	2,700 2,115	- -	- -	57,975 25,615	- -	44 -
G Sala Tenna	2007 2006	30,000 23,500	- -	- -	2,700 2,115	25,275 -	- -	57,975 25,615	- -	44 -
Officers										
G Chiappini	2007 2006	68,045 20,682	- -	- -	- -	- -	- -	68,045 20,682	- -	- -
Total	2007 2006	208,045 126,289	- -	- -	12,600 9,504	101,100 -	- -	321,745 135,793		

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	*Audit & Risk Management*	*Compliance*
Number of meetings held:	*6*	*2*	*1*
Number of meetings attended:			
Dalton Gooding	6	1	N/A
Peter Wallace	6	2	1
Derek La Ferla	5	N/A	1
Giuliano Sala Tenna	6	2	N/A

Committee membership

As at the date of this report the company had an Audit and Risk Management Committee.

Members acting on the Audit and Risk Management Committee of the Board at the date of this report are:

- Peter Wallace (Chairman of Committee)
- Dalton Gooding
- Giuliano Sala Tenna

Members acting on the Compliance Committee of the Board at the date of this report are:

- Derek La Ferla (Chairman of Committee)
- Peter Wallace
- Gabriel Chiappini (Company Secretary)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors have obtained an independence declaration from our auditors Ernst & Young, as presented on page 20 of this Annual Report.

NON-AUDIT SERVICES

The following non-audit services were provided by the Company's auditor Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young did not receive any amounts for the provision of non-audit services.

Signed for and on behalf of the Directors in accordance with a resolution of the Board.

Peter Wallace
Director
Dated: 27 September 2007
Perth, Western Australia

AUDITOR'S INDEPENDENCE DECLARATION

ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

Auditor's Independence Declaration to the Directors of Katana Capital Limited

In relation to our audit of the financial report of Katana Capital Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

C B Pavlovich
Partner
Perth
27 September 2007

INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2007 **$**	2006* $	**2007** **$**	2006* $
Investment Income					
Dividends		658,339	119,752	658,339	119,752
Interest		386,597	411,385	379,817	411,385
Changes in fair value of investments held for trading		11,146,241	1,281,921	10,873,281	1,281,921
Changes in fair value of options		350,179	92,225	350,179	92,225
Other income		63,454	-	63,454	-
Total Investment Income		12,604,810	1,905,283	12,325,070	1,905,283
Expenses					
Administration		158,228	87,978	157,258	87,978
Directors' fees and expenses		258,696	138,097	258,696	138,097
Interest expense		3,406	2,352	3,406	2,352
Legal and professional fees		114,567	40,672	113,715	40,672
Fund Manager's fees		1,530,921	196,239	1,530,921	196,239
Total expenses		2,065,818	465,338	2,063,996	465,338
Profit before income tax		10,538,992	1,439,945	10,261,074	1,439,945
Income tax expense	2	(3,028,461)	(379,567)	(2,945,086)	(379,567)
Net Profit attributable to members of Katana Capital Limited		7,510,531	1,060,378	7,315,988	1,060,378
Basic earnings per share (cents per share)	18	30.38	7.1		
Diluted earnings per share (cents per share)	18	28.56	7.1		

* 2006 comparatives represents the period from date of incorporation on 19 September 2005 through to 30 June 2006.

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2007

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2007 $	2006* $	2007 $	2006* $
Current Assets					
Cash and cash equivalents	3	13,240,092	8,715,857	13,193,741	8,715,857
Trade and other receivables	4	404,065	58,080	404,065	58,080
Investments	5	38,083,334	14,666,983	37,371,974	14,666,983
Other assets	6	26,903	26,083	25,844	26,083
Total Current Assets		51,754,394	23,467,003	50,995,624	23,467,003
Non Current Assets					
Investments	5	-	-	120	-
Receivables	7	-	-	480,733	-
Total Non Current Assets		-	-	480,853	-
Total Assets		51,754,394	23,467,003	51,476,477	23,467,003
Current Liabilities					
Trade and other payables	8	1,314,548	1,222,258	1,314,548	1,222,258
Financial liabilities	8	53,895	47,775	53,895	47,775
Interest bearing liabilities	9	10,121	12,331	10,121	12,331
Dividend payable		120,204	-	120,204	-
Income tax liability		470,395	18,411	456,267	18,411
Total Current Liabilities		1,969,163	1,300,775	1,955,035	1,300,775
Non Current liabilities					
Deferred tax liability	2	2,756,926	218,140	2,687,680	218,140
Total Non Current Liabilities		2,756,926	218,140	2,687,680	218,140
Total Liabilities		4,726,089	1,518,915	4,642,715	1,518,915
Net Assets		47,028,305	21,948,088	46,833,762	21,948,088
Equity					
Issued Capital	10	40,158,270	20,887,710	40,158,270	20,887,710
Option Premium Reserve		101,100	-	101,100	-
Retained Earnings	11	6,768,935	1,060,378	6,574,392	1,060,378
Total Equity		47,028,305	21,948,088	46,833,762	21,948,088

The above Balance Sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2007 **$**	2006* $	**2007** **$**	2006* $
Cash flows from operating activities					
Proceeds on sale of financial assets		15,570,278	7,989,222	15,178,679	7,989,222
Payments for purchases of financial assets		(28,846,925)	(20,160,098)	(28,016,925)	(20,160,098)
Payments to suppliers and employees		(789,535)	(340,862)	(786,654)	(340,862)
Interest paid		(3,406)	(2,352)	(3,406)	(2,352)
Interest received		386,597	411,385	379,817	411,385
Dividends received		658,339	61,672	658,339	61,672
Tax paid		(37,692)	-	(37,692)	-
Net cash flows used in operating activities	14	(13,062,344)	(12,041,033)	(12,627,842)	(12,041,033)
Cash flows from investing activities					
Investment in subsidiary		-	-	(120)	-
Loan provided to subsidiary		-	-	(480,733)	
Net cash flows used in investing activities		-	-	(480,853)	
Cash flows from financing activities					
Proceeds from issue of shares		19,270,560	21,350,000	19,270,560	21,350,000
Share issue expenses		-	(605,441)	-	(605,441)
Dividends paid		(1,681,771)	-	(1,681,771)	-
Proceeds from/(repayments of) borrowings		(2,210)	12,331	(2,210)	12,331
Net cash flows from financing activities		17,586,579	20,756,890	17,586,579	20,756,890
Net increase in cash held		4,524,235	8,715,857	4,477,884	8,715,857
Cash and cash equivalents at beginning of the year		8,715,857	-	8,715,857	-
Cash and cash equivalents at end of the year	3	13,240,092	8,715,857	13,193,741	8,715,857

* 2006 comparatives represents the period from date of incorporation on 19 September 2005 through to 30 June 2006

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE CAPITAL	ISSUED PREMIUM RESERVE	OPTION EARNINGS	RETAINED EQUITY	TOTAL
	$	$	$	$	$
CONSOLIDATED					
2006					
Profit for the period		-	-	1,060,378	1,060,378
Total recognised income and expense for the period		-	-	1,060,378	1,060,378
Issue of share capital		150,000	-	-	150,000
Shares issued on Initial Public Offering in December 2005		21,200,000	-	-	21,200,000
Capital raising expenses net of tax		(462,290)	-	-	(462,290)
At 30 June 2006		**20,887,710**	**-**	**1,060,378**	**21,948,088**
2007					
Opening Balance 1 July 2006		20,887,710	-	1,060,378	21,948,088
Profit for the year		-	-	7,510,531	7,510,531
Total recognised income and expense for the year		-	-	7,510,531	7,510,531
Dividends Paid	22	-	(1,801,974)	(1,801,974)	
Conversion of $0.95 Options into fully paid ordinary shares		19,270,560	-	-	19,270,560
Share based payments		-	101,100	-	101,100
At 30 June 2007		**40,158,270**	**101,100**	**6,768,935**	**47,028,305**

PARENT	**Note**	**Issued Capital**	**Option Premium Reserve**	**Retained Earnings**	**Total Equity**
		$	$	$	$
2006					
Profit for the period		-	-	1,060,378	1,060,378
Total recognised income and expense for the period		-	-	1,060,378	1,060,378
Issue of share capital		150,000	-	-	150,000
Shares issued on Initial Public Offering in December 2005		21,200,000	-	-	21,200,000
Capital raising expenses net of tax		(462,290)	-	-	(462,290)
At 30 June 2006		**20,887,710**	**-**	**1,060,378**	**21,948,088**
2007					
Opening Balance 1 July 2006		**20,887,710**	**-**	**1,060,378**	**21,948,088**
Profit for the year		-	-	7,315,988	7,315,988
Total recognised income and expense for the year		-	-	7,315,988	7,315,988
Dividends Paid	22		-	(1,801,974)	(1,801,974)
Conversion of $0.95 Options into fully paid ordinary shares		19,270,560	-	-	19,270,560
Share based payments		-	101,100	-	101,100
At 30 June 2007		**40,158,270**	**101,100**	**6,574,392**	**46,833,762**

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

1. Corporate Information

The financial report of Katana Capital Limited ("the Company") for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 27 September 2007.

The Company was incorporated on 19 September 2005. In July 2006 it incorporated a wholly owned subsidiary - Kapital Investments (WA) Pty Ltd.

Katana Capital Limited is a company limited by shares, incorporated and domiciled in Australia and whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities are described in the Directors' report.

Summary of Significant Accounting Policies

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. Other mandatory professional reporting requirements have also been complied with.

The financial report has been prepared in accordance with the historical cost convention, except for the investments held for trading and derivative financial instruments, which have been measured at fair value.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2006. The adoption of these standards gives rise to additional disclosure however did not have a material effect on the financial statements of the Group.

The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). The financial report also complies with International Financial Reporting Standards ('IFRS').

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Katana Capital Limited and its subsidiaries ("the Group").

The financial statements of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

1. CORPORATE INFORMATION CONTINUED

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Investments and Other Financial Assets

Financial assets are classified as either financial assets held for trading, loans and receivables, held to maturity investments or available for sale investments, as appropriate.

When financial assets are initially recognised they are recorded at fair value, plus in the case of investments not held for trading, directly attributable transaction costs. The Fund Manager determines the classification of its financial assets after initial recognition and when allowed and appropriate, re-evaluates this designation at each financial year end.

(i) Financial assets held for trading

After initial recognition investments which are classified as held for trading are measured at fair value, gain and losses on these investments are recognised in the profit and loss. For financial assets that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For financial assets where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the financial assets. The fair value of options is determined using an appropriate option pricing model.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Company commits to purchase the asset.

(ii) Loans & Receivables

Loans and receivables are non derivative financial assets with fixed and determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition.
For financial assets carried at amortised cost, gains and losses are recognised in the income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

(iii) Derecognition of Financial Assets

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

- The rights to receive cash flows from the asset have expired;
- The company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party lender under a "pass-through" arrangement; or
- The company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

1. CORPORATE INFORMATION CONTINUED

(e) Investment Income

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured. Specific income is recognised as follows:

(i) Dividends

Dividends are recognised when the right to receive payment is established.

(ii) Interest

Interest is recognised on an accruals basis using the effective interest rate method, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest on cash on deposit is recognised in accordance with the terms and conditions that apply to the deposit.

(f) Income tax

Deferred income tax is provided for on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

1. CORPORATE INFORMATION CONTINUED

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents includes deposits held at call with banks or financial institutions.

(h) Trade and other receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Receivables are recognised and carried at the original invoice amount and interest accrues (using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the effective life of the financial instrument) to the net carrying amount of the financial asset. Amounts are generally received within 30 days of being recorded as receivables.

(i) Trade and other payables

Liabilities for creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

(j) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(k) Goods and Services Tax ('GST')

Incomes, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST, to the extent that GST is recoverable from the Australian Tax Office (ATO). Where GST is not recoverable it is recognised as part of the cost of the asset or as part of the expense item as applicable.

Reduced input tax credits (RITC) recoverable by the Company from the ATO are recognised as receivables in the Balance Sheet.

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

(l) Earnings per share

Basic earnings per share (EPS) is calculated as net profit attributable to shareholders divided by the weighted average number of units.

1. CORPORATE INFORMATION CONTINUED

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(m) Significant accounting judgements, estimates and assumptions:
The determination of fair value of unlisted securities requires the application of a discounted cashflow valuation model. A discounted cashflow model requires that certain judgements and assumptions are made, including an estimate for the discount rate applied and an estimation of future uncertain cashflows.

The entity determines the fair value of unlisted options using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The Black-Scholes formula requires the estimation of certain assumptions including the volatility of the underlying shares and an estimation as to the anticipated date at which the option will be exercised.

(n) Statement of compliance
Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting year ending 30 June 2007:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB *7 Financial Instruments: Disclosures.*	1/01/2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1/07/2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 10 [AASB 2]	*Amending standard issued as a consequence of AASB Interpretation 10 Interim Financial Reporting and Impairment.*	1/03/2007	This is consistent with the Group's existing accounting policies for share-based payments. Therefore no impact	1/07/2007

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

(n) Statement of compliance continued

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 *Service Concession Arrangements.*	1/01/2007	As the Group currently has no service concession arrangements or public-private-partnerships (PPP), it is expected that this Interpretation will have no impact on its financial report.	1/07/2007
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 *Operating Segments.*	1/01/2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the new standard is expected to have an impact on the Group's segment disclosures as segment information based on management reports are more detailed than those currently reported under AASB 114.	1/01/2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments	The standard is a result of the AASB decision that, in principle, all accounting policy options currently existing in IFRS should be included in the Australian equivalents to IFRS and the additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment.	1/07/2007	As the Group does not anticipate changing any of its accounting policy choices as a result of the issue of AASB 2007-4 this standard will have no impact on the amounts included in the Group's financial statements. Changes to disclosure requirements will have no direct impact on the amounts included in the Group's financial statements.	1/07/2007

(n) Statement of compliance continued

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)	Amending standard issued as a consequence of AASB 123 (revised) Borrowing Costs.	1/01/2009	As the Group is not intending at this time to construct any qualifying assets which are financed by borrowings the revised standard will have no impact.	11/07/2009
AASB 2007-7	Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128)	Amending standard issued as a consequence of AASB 2007-4	1/07/2007	Refer to AASB 2007-4 above.	1/07/2007
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132.	1/01/2007	Refer to AASB 2005-10 above.	1/07/2007
AASB 8	*Operating Segments*	This new standard will replace AASB 114 *Segment Reporting* and adopts a management approach to segment reporting.	1/01/2009	Refer to AASB 2007-3 above.	1/07/2009
AASB 101	Presentation of Financial Statements	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1/01/2007	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the revised standard may result in changes to the disclosures included in the Group's financial report.	1/01/2007

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

(n) Statement of compliance continued

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 123 (revised June 2007)	*Borrowing Costs*	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to acquisition, production or production of a qualifying asset.	1/01/2009	Refer to AASB 2007-1 above.	1/07/2007
AASB Interpretation 10	*Interim Financial Reporting and Impairment*	Addresses an inconsistency between AASB 134 *Interim Financial Reporting* and the impairment requirements relating to goodwill in AASB 136 *Impairment of Assets* and equity instruments classified as available for sale in AASB 139 *Financial Instruments: Recognition and Measurement.*	1/11/2006	Refer to AASB 2007-2 above.	
AASB Interpretation 11	*Group and Treasury Share Transactions*	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1/03/2007	Refer to AASB 2007-2 above.	1/07/2007
AASB Interpretation 12	*Service Concession Arrangements*	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1/01/2007	The Group does not have any customer loyalty programmes and as such this standard is not expected to have any impact on the Group's financial report.	1/07/2008

(n) Statement of compliance continued

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Interpretation 129 (revised June 2007)	*Service Concession Arrangements: Disclosures*	The revised Interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or as a concession operator.	1/01/2008	Refer to AASB 2007-2 above.	1/07/2008
AASB Interpretation 13	*Customer Loyalty Programmes*	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1/07/2008	The Group does not have any customer loyalty programmes and as such this standard is not expected to have any impact on the Group's financial report.	1/07/2008
AASB Interpretation 14	*IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1/01/2008	The Group does not have a defined benefit pension plan and as such this standard is not expected to have any impact on the Group's financial report.	1/07/2008

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). The financial report also complies with International Financial Reporting Standards ('IFRS').

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

(o) Derivative financial instruments

The company uses derivative financial instruments such as exchanged traded options to manage its risks associated with share price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

(o) Derivative financial instruments continued

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

(i) Exchange Trade Options

The company writes and then trades Exchange Traded Options ('ETO's'), the company's policy for managing its Risk for ETO's is to ensure it only writes ETO's against shares that it physically holds. ETO's are governed by the Australian Stock Exchange ('ASX') and are traded on the ASX.

ETO's are recognised as liabilities at fair value. Any gains or losses arising from changes in the fair value of ETO's, are taken directly to net profit or loss for the year.

(p) Contributed equity

Ordinary shares are classified as equity, incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(q) Pension benefits

Defined contribution plan

Contributions to superannuation funds are charged to the income statement when due.

2. INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
(a) Aggregate current and deferred tax asset arising in reporting period and recognised in the profit or loss:				
Current tax charge	487,764	18,411	473,635	18,411
Deferred tax – relating to originating temporary differences	2,540,697	361,156	2,471,451	361,156
	3,028,461	**379,567**	**2,945,086**	**379,567**
Income tax expense is attributable to:				
Profit from continuing operations	**3,028,461**	**379,567**	**2,945,086**	**379,567**
(b) Aggregate current and deferred tax asset arising in reporting period and not recognised in profit or loss but directly debited and credited to equity:				
Deferred tax – share issue expenses deductible over 5 years	-	(143,016)	-	(143,016)

(c) Numerical reconciliation of income tax expense to prima facie tax payable

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Profit from continuing operations before income tax expense	10,538,992	1,439,945	10,261,074	1,439,945
Tax at the Australian tax rate of 30%	3,161,697	431,984	3,078,322	431,984
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible expenses	30,667	3,147	30,667	3,147
Franking credits	70,455	7,929	70,455	7,929
Franking rebate	(234,851)	(26,431)	(234,851)	(26,431)
Other	-	(37,062)	-	(37,062)
Under provision from prior year	493	-	493	
	3,028,461	**379,567**	**2,945,086**	**379,567**

(d) Deferred income taxes

Deferred tax liabilities

The balance comprises temporary differences attributable to:				
Dividends receivable	25,747	17,424	25,747	17,424
Investments	2,853,011	343,732	2,783,603	343,732
Accrued income	15,099	-	15,099	-
Share issue costs	(107,262)	(143,016)	(107,262)	(143,016)
Options	(21,535)	-	(21,535)	-
Provisions	(7,500)	-	(7,500)	-
Other	(634)	-	(472)	-
	2,756,926	**218,140**	**2,687,680**	**218,140**
Movements:				
Opening Balance	218,140	-	218,140	-
Credited directly to equity	-	(143,016)	-	(143,016)
Charged to the income statement	2,540,697	361,156	2,471,451	361,156
Other	(1,911)	-	(1,911)	-
Closing balance at 30 June 2007	**2,756,926**	**218,140**	**2,687,680**	**218,140**

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3. CASH & CASH EQUIVALENTS

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Cash at bank	3,245,298	2,740,260	3,198,947	2,740,260
Short Term Bank Bills	9,994,794	5,975,597	9,994,794	5,975,597
	13,240,092	**8,715,857**	**13,193,741**	**8,715,857**

Short term bank bills have an approximate term of 30 days and have been achieving a yield of between 5.95% and 6.44% (2006: 5.40% and 6.07%)

4. TRADE AND OTHER CURRENT RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Dividend receivable	85,825	58,080	85,825	58,080
Unsettled trades – listed equities	318,240	-	318,240	-
	404,065	**58,080**	**404,065**	**58,080**

5. INVESTMENTS

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Current				
Listed Securities at fair value				
Listed Equities – held for trading	36,290,179	14,646,983	35,578,819	14,646,983
Other investments				
Futures account	-	20,000	-	20,000
Initial Public offering applications	1,793,155	-	1,793,155	-
	38,083,334	**14,666,983**	**37,371,974**	**14,666,983**
Non-current				
Unlisted Securities				
Investment in controlled entity at cost	-	-	120	-

Held for trading investments consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate. Fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business at the balance sheet date.

Other current investments have been measured at cost.

The investment in the controlled entity is for 100% of the issued capital of Kapital Investments (WA) Pty Ltd.

6. OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Prepayments – insurance	19,351	20,540	18,292	20,540
GST recoverable	7,552	5,543	7,552	5,543
	26,903	**26,083**	**25,844**	**26,083**

7. NON CURRENT RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Receivable from wholly owned subsidiary				
Receivable	**-**	**-**	**480,733**	**-**

8. PAYABLES AND OTHER CURRENT LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Payables				
Unsettled trades – listed equities	-	1,074,186	-	1,074,186
Accrual – Classic Capital Management fee	1,303,082	122,763	1,303,082	122,763
Trade Creditors	5,346	18,794	5,346	18,794
Employee pay as you go tax instalments	6,120	6,515	6,120	6,515
	1,314,548	**1,222,258**	**1,314,548**	**1,222,258**
Other current liabilities				
Exchange Traded options – at fair value (i)	**53,895**	**47,775**	**53,895**	**47,775**

(i) the company writes and then trades Exchange Traded Options (ETO's), the company's policy for managing its Risk for ETO's is to ensure it only writes ETO's against shares that it physically holds. ETO's are governed by the Australian Stock Exchange (ASX) and are traded on the ASX. The ETO's have an average expiry date of 12 August 2007.

9. INTEREST BEARING LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Current				
Insurance premium funding	10,121	12,331	10,121	12,331

The company funded its Insurance obligations by way of a financing premium funding facility repayable within 10 months of the term of the insurance policy, with an effective interest rate of 6.47%.

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10. ISSUED CAPITAL

Ordinary Shares		**2007**		**2006**
Movement in shares on issue	**Number**	**$**	**Number**	**$**
Balance at beginning of period	21,400,000	20,887,710	-	-
Options converted into fully paid ordinary shares at $0.95	20,284,800	19,270,560	-	-
Private placement October 2005	-	-	200,000	150,000
Initial Public Offering @ $1.00 December 2005	-	-	21,200,000	21,200,000
Less capital raising expenses net of tax	-	-	-	(462,290)
Balance at end of the period	41,684,800	40,158,270	21,400,000	20,887,710

Options		**2007**		**2006**
Movement in shares on issue	**Number**	**$**	**Number**	**$**
Balance at beginning of period	21,400,000	-	-	-
Options converted into fully paid ordinary shares at $0.95	(20,284,800)	-	-	-
Options expiring 31 May 2007	(1,115,200)	-	-	-
Options issued to directors pursuant to the AGM held in November 2006	1,000,000	-	-	-
Private placement October 2005	-	-	200,000	-
Initial Public Offering December 2005	-	-	21,200,000	-
Balance at end of the period	**1,000,000**	**-**	**21,400,000**	**-**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Effective 1 July 1998 the Corporations legislation abolished the concept of authorised capital and par value shares. Accordingly, the company does not have authorised capital nor par value in respect of its issued shares.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

11. RETAINED EARNINGS

	CONSOLIDATED		**PARENT ENTITY**	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Opening Balance	1,060,378	-	1,060,378	-
Net profit after tax attributable to members of the company	7,510,531	1,060,378	7,315,988	1,060,378
Dividends paid	(1,801,974)	-	(1,801,974)	-
Balance at the end of the period	**6,768,935**	**1,060,378**	**6,574,392**	**1,060,378**

12. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

Board of Directors
D Gooding – Chairman (non-executive)
D La Ferla (non-executive)
G Sala Tenna (non-executive)
P Wallace (non-executive)

Other Key Management Personnel
In addition to the Directors and Officer noted above, Classic Capital Pty Limited, the Fund Manager for the Group, is considered to be Key Management Personnel with the authority for the strategic direction and management of the investments of the Group. The directors of Classic Capital Pty Limited are Brad Shallard and Romano Sala Tenna.

Officer
The company secretary is not considered to be a key management person as he does not have the authority and responsibility for planning, directing or controlling the activities of the Company and is not involved in the decision making process, with his main duties being aligned to his compliance function.

This report outlines the remuneration arrangements in place for directors of Katana Capital. Katana Capital at this early stage of its development does not employ executive directors and does not have a Managing Director or a Chief Executive Officer. The Company has outsourced the management of the investment portfolio to the Fund Manager, Classic Capital Ltd. Classic Capital Ltd reports directly to the Board and is invited to attend all Board meetings to present its investment strategy and to discuss and review the financial performance of the Company.

Remuneration philosophy
The performance of the Company depends upon the quality of its directors. To prosper, the Company must attract, motivate and retain skilled non-executive directors.

The remuneration policy is not linked to company performance.

Remuneration Committee
The Company does not have a remuneration committee. The Board of Directors acts as the Remuneration Committee and is responsible for determining and reviewing compensation arrangements for the Company. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis, by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

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12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At present the aggregate remuneration totals $200,000 per year in respect of fees payable to non-executive directors. This amount was approved by shareholders at the annual general meeting held on the 30 November 2006. The amount of aggregate remuneration, including the issue of options sought to be approved by shareholders and the manner in which it is apportioned amongst directors, is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

There are no performance conditions attached to the option issued as the options are considered to be form part of the directors remuneration package.

Each director receives a fee for being a director of the Company and includes attendance at Board and committee meetings. Any additional services provided are charged at a daily rate agreed in advance by the Chairman.

The remuneration of non-executive directors for the year ended 30 June 2007 is detailed in Table 1 of this report.

Officer remuneration

The company secretary is considered to be an officer of the company, the Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders The fees paid to the company secretary for normal services is based on a fixed monthly remuneration. Fees remunerated outside of the company secretary's normal services are remunerated on an hourly basis and approved by the Board.

Senior manager and executive director remuneration

Objective

As previously noted the Company at present does not employ any Executive Directors or Senior Management. If the Company chooses in the future to employ Executive Directors the Company will review the remuneration packages.

Structure

As previously noted the Company does not currently employ any executive directors or senior management, however the Board will determine the level and make-up of executive remuneration. To assist in achieving the Company's objectives the Board will link the nature and amount of officers' emoluments to the Company's financial and operational performance. At the time of employing either Executive Directors or Senior Management, then their remuneration will consist of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short Term Incentive (STI); and
  - Long Term Incentive (LTI)

12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

Employment Contracts

As noted above the Company does not currently employ any Executive Directors or Senior Management, it does however have an agreement in place with Classic Capital Ltd to provide the Company with investment management services. Refer to Note 12(d) for further information.

		Short-term benefits			*Post Employ-ment*	*Equity*	*Other*	*Total*		
		Salary & Fees $	*Other $*	*Cash STI $*	*Super-annuation $*	*Options $*	*Termin-ation $*	*$*	*% Performance related*	*% Remuneration consisting of options*
D L Gooding	2007 2006	50,000 35,107	- -	- -	4,500 3,159	25,275 -	-	79,775 38,266	- -	32 -
P Wallace	2007 2006	30,000 23,500	- -	- -	2,700 2,115	25,275 -	- -	57,975 25,615	- -	44 -
D La Ferla	2007 2006	30,000 23,500	- -	- -	2,700 2,115	- -	- -	57,975 25,615	- -	44 -
G Sala Tenna	2007 2006	30,000 23,500	- -	- -	2,700 2,115	25,275 -	- -	57,975 25,615	- -	44 -
Total	2007 2006	140,000 105,607	- -	- -	12,600 9,504	101,100 -	- -	253,700 115,111		

Options granted as part of remuneration for the year ended 30 June 2007

In November 2006 the shareholders of the company approved the issue of 1,000,000 share options to the directors. The exercise price of the options are $1.10, the options expire on 19 December 2008. The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were issued. The following table lists the inputs to the model used for the half year ended 31 December 2006.

Expected volatility (%)	10
Risk free interest rate (%)	6.25
Days to expiry	730
Share price on grant date	$1.05
Dividend yield	0

The estimated fair value of each option at grant date is $0.1011.

Fixed compensation

The company has employed a professional board of directors with all directors employed as non executive directors. The level of compensation has been determined by reference to industry benchmarks and the level of compensation received by non executive directors of a similar size and activity. There is no variable component attached the employment of the non executive directors.

NOTES TO THE FINANCIAL STATEMENTS

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12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Key Management Personnel				
Short-term	140,000	105,607	140,000	105,607
Post-employment	12,600	9,504	12,600	9,504
Share-based payment	101,100	-	101,100	-
	253,700	115,111	253,700	115,111

(b) Holdings of equity instruments in Katana Capital Limited of Directors and Key management Personnel and their related parties

	Held at 1 July 2006	Received on exercise of options	Net change other	Held at 30 June or at date resigned
Directors				
Dalton Gooding	50,000	50,000	-	100,000
Peter Wallace	150,000	150,000	-	300,000
Derek La Ferla	50,000	50,000	-	100,000
Giuliano Sala Tenna	50,000	50,000	-	100,000
Other Key Management Personnel				
Brad Shallard	215,000	215,000	150,000	580,000
Romano Sala Tenna	225,000	325,000	430,000	980,000
Total	**740,000**	**840,000**	**580,000**	**2,160,000**

	Held at 1 July 2005	Received on exercise of	Net change other	Held at 30 June 2006 resigned
Directors				
Dalton Gooding	-	-	50,000	50,000
Peter Wallace	-	-	150,000	150,000
Derek La Ferla	-	-	50,000	50,000
Giuliano Sala Tenna	-	-	50,000	50,000
Other Key Management Personnel				
Brad Shallard			215,000	215,000
Romano Sala Tenna			225,000	225,000
Total	-	-	**740,000**	**740,000**

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable that those the Group would have adopted if dealing at arm's length.

(c) Option holdings of Key Management Personnel

Key Management Personnel	Held at 1 July July 2006	Granted as remuneration	Options exercised	Other changes	Held at 30 June 2007 or date resigned	Vested and exercisable at 30 June 2007
Directors						
Dalton Gooding	50,000	250,000	(50,000)	-	250,000	250,000
Peter Wallace	150,000	250,000	(150,000)	-	250,000	250,000
Derek La Ferla	50,000	250,000	(50,000)	-	250,000	250,000
Giuliano Sala Tenna	50,000	250,000	(50,000)	-	250,000	250,000
Other Key Management Personnel						
Brad Shallard	215,000	-	(215,000)	-	-	-
Romano Sala Tenna	325,000	-	(325,000)	-	-	-
Total	**840,000**	**1,000,000**	**(840,000)**	**-**	**1,000,000**	**1,000,000**

Key Management Personnel	Held at 1 July July 2005	Granted as remuneration	Options exercised	Other changes	Held at 30 June 2006	Vested and exercisable at 30 June 2006
Directors						
Dalton Gooding	-	-	-	50,000	50,000	50,000
Peter Wallace	-	-	-	150,000	150,000	150,000
Derek La Ferla	-	-	-	50,000	50,000	50,000
Giuliano Sala Tenna	-	-	-	50,000	50,000	50,000
Other Key Management Personnel						
Brad Shallard	-	-	-	215,000	215,000	215,000
Romano Sala Tenna	-	-	-	325,000	325,000	325,000
Total	**-**	**-**	**-**	**840,000**	**840,000**	**840,000**

Loans to key management personnel
There were no loans to key management personnel during the period.

Other transactions and balances with key management personnel
There were no transactions or balances with key management personnel other than those disclosed in the remuneration report of the Director's Report.

(d) Compensation of Other Key Management Personnel

No amount is paid by the Group directly to the Directors of Classic Capital Pty Limited. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Group to the Directors of Classic Capital Pty Limited as Key Management Personnel.

Compensation is paid to the Fund Manager in the form of fees and the significant terms of the agreement and amount of compensation is disclosed below.

NOTES TO THE FINANCIAL STATEMENTS

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12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

The Company has entered into the Management Agreement with the Fund Manager with respect to the management of the Portfolio. The main provisions of the Management Agreement are summarised below.

The Management Agreement is for an initial period of 10 years from its commencement date (Initial Term) unless earlier terminated in accordance with its terms. The commencement date (Commencement Date) is the date on which the company listed on the Australian Stock Exchange – 23 December 2005.

The Management Agreement will renew for a further period of 10 years on expiry of the Initial Term if the following conditions are satisfied:

(1) the Shareholders of the Company approve such renewal by ordinary resolution;
(2) the Fund Manager is not in breach of the Management Agreement; and
(3) the Fund Manager has not in the reasonable opinion of the Board materially breached the Management Agreement during the Initial Term.

If the Management Agreement continues past the Initial Term without being renewed in accordance with the above, it may be terminated by the Company by serving one month's notice, subject to the Company obtaining the approval of the Shareholders by ordinary resolution to effect such termination.

The Fund Manager may terminate the Management Agreement at any time by providing a written notice at least three months prior to termination, if:

(1) at any time during the term:
    (a) the Company fails to make payment of the remuneration in accordance with the Management Agreement and the failure continues for 21 days from the delivery of a written notice by the Fund Manager to the Company requesting payment;
    (b) the Company enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
    (c) the Company is guilty of any gross default, breach, non-observance or non-performance of any of the terms of and conditions contained in the Management Agreement; or
    (d) a receiver or receiver and manager is appointed to the whole or part of the undertakings of the Company; and
(2) such notice is given not less than two years after the commencement of the Initial Term.

The Company may immediately terminate the Management:

(1) the Fund Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;
(2) the Fund Manager's AFSL is suspended or cancelled at any time for any reason;
(3) the Fund Manager commits a fundamental default or breach of its obligations under the Management Agreement or is in breach of any conditions of its AFSL and such default or breach is not remedied within 30 days after the Company has notified the Fund Manager in writing to remedy that default or breach;

(4) the Fund Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
(5) a receiver or receiver and manager is appointed to the whole or part of the undertaking of the Fund Manager;
(6) a change in control of the Fund Manager occurs without the Fund Manager obtaining at least 30 days prior written consent from the Company;
(7) the Fund Manager is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement;

12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(8) the Fund Manager fails to remedy a breach of the Management Agreement within the time period reasonably specified in a notice from the Company requiring it to do so;
(9) the Fund Manager persistently fails to ensure that investments made on behalf of the Company are consistent with the investment strategy applicable to the Company at the time the relevant investment is made; or
(10) the Fund Manager is not lawfully able to continue to provide services to the Company pursuant to the terms of the Management Agreement.

The Company may, by written notice to the Fund Manager at any time within six months after the end of any five year period during the term, terminate the Management Agreement if Shareholders pass an ordinary resolution to terminate and the average Portfolio return for the five 12 month periods comprising the relevant five year period is less than the average percentage increase in the ASX All Ordinaries Index for those five 12 month periods.

Management and Performance Fees
(1) Management Fee
The Fund Manager will receive a monthly management fee equal to 0.104167% of the Portfolio value calculated at the end of each month. The fee for 2007 was $405,214 (2006: $142,812)
(2) Performance Fee
Performance fee to be paid in respect of each performance calculation period of 18.5% of the amount by which the Fund Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June). The fee for 2007 was $1,125,707 (2006: $53,427)

Mandate
The Fund Manager must manage the Portfolio in accordance with guidelines for management set out in the Mandate, which may be amended by written agreement between the Company and the Fund Manager from time to time. The Mandate provides that the Portfolio will be managed with the following investment objectives:

- to achieve a pre tax and pre expense return which outperforms the ASX All Ordinaries Index; and
- the preservation of capital invested. The Mandate permits the Fund Manager to undertake investments in:
  (1) listed securities;
  (2) rights to subscribe for or convert to listed securities (whether or not such rights are tradeable on a securities exchange);
  (3) any securities which the Fund Manager reasonably expects will be quoted on the ASX within a 24 month period from the date of investment;
  (4) listed securities for the purpose of short selling;
  (5) warrants or options to purchase any investment and warrants or options to sell any investment;
  (6) discount or purchase of bills of exchange, promissory notes or other negotiable instruments accepted, drawn or endorsed by any bank or by the Commonwealth of Australia, any State or Territory of Australia, or by any corporation of at least an investment grade credit rating granted by a recognised credit rating agency in Australia;
  (7) deposits with any bank or corporation declared to be an authorised dealer in the short-term money market;
  (8) debentures, unsecured notes, loan stock, bonds, promissory notes, certificates of deposit, interest bearing accounts, certificates of indebtedness issued by any bank or by the Commonwealth of Australia, any State or Territory of Australia, or any Australian government authority, or a corporation of at least an investment grade credit rating granted by a recognised credit rating agency in Australia;
  (9) units or other interest in cash management trusts;
  (10) underwriting or sub-underwriting of securities as and where permitted by relevant laws and regulations and the Fund Manager's AFSL; and

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12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(11) any other investment, or investment of a particular kind, approved by the Company in writing as and where permitted by the Fund Manager's AFSL.

The Mandate specifies the following risk control features:
The Portfolio may comprise securities in up to 80 companies from time to time.

- No investment may represent more than 10.0% of the issued securities of a company at the time of investment.
- Total cumulative gearing on the Portfolio may not exceed 50% of the total value of the net tangible assets of the Company after tax.
- The Fund Manager will adhere to the parameters on a per stock basis as set out in the table below unless the prior approval of the Board is received to do otherwise.

Portfolio Composition and Management
The aim of the Fund Manager is to build for the Company a portfolio of 20 to 60 companies, with an emphasis towards holding a larger number of smaller positions. Under the current Mandate, the Company's Portfolio may vary from between 0 to 80 securities, depending upon investment opportunities and prevailing market conditions. The Fund Manager may construct a Portfolio comprising of any combination of cash, investment and debt, subject to the gearing limits in the Mandate. Under the Mandate, total cumulative gearing on the Portfolio may not exceed 50% of the total value of the net tangible assets of the Company after tax.

The capacity to short sell securities, as well as employ debt, is designed to ensure the Fund Manager has flexibility to implement an absolute return strategy. It should also be noted that, despite the focus on emerging and green chip companies, in periods of overly negative market or stock sentiment, the best investment opportunities on a risk-return basis are often found in the ASX S&P Index Top 20 and ASX S&P Index Top 100 stocks by market capitalisation. Often the larger stocks rebound first, hence providing not just safer returns, but quicker returns.

Under the current Mandate, the following parameters will apply to individual investments unless the prior approval of the Directors is received to do otherwise:

Size of Company	Minimum investment per security	Indicative benchmark investment per security	Maximum investment per security
	As a percentage of Total Portfolio		
ASX S&P Top 20	1%	5%	12.5%
ASX S&P Top100/ Cash Hybrids	1%	3%	10%
ASX S&P Top 500	No minimum	2%	7.5%
Outside of ASX S&P Top 500/ Other Instruments	No minimum	1%	5%

12. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

Asset allocation

The Fund Manager's allocation of the Portfolio will be weighted in accordance with various macro economic factors. These factors will invariably impact the medium and long-term Performance of the Company. These factors include:

(a) global economy;
(b) Australian economy and positioning within the economic cycle;
(c) sectors within the Australian market;
(d) phase of the interest rate cycle; and
(e) state of the property market (eg comparative investment merit).

The Fund Manager may form views on the factors outlined above, and may re-weight the Portfolio accordingly.

There were no changes of the key management personnel after reporting date and the date the financial report was authorised for issue.

13. RELATED PARTIES

(a) Directors

The names of the persons who were Directors of Katana Capital Limited at any time during the financial period and up to the date of this report were as follows: Mr Dalton Gooding, Mr Derek La Ferla, Mr Giuliano Sala Tenna and Mr Peter Wallace.

(b) Related party transactions

Transactions between the Company and related parties noted above during the period are outlined below

(i) Mr Derek La Ferla is a partner of Deacons law firm and as part of the Initial Public Offering prospectus and other corporate legal services, Deacons received $5,895 (2006: $128,531) for legal services provided.

(ii) Dalton Gooding is a partner of Gooding Pervan Chartered Accounting firm and as part of providing taxation advisory services, Gooding Pervan received $14,331 (2006: $8,250) for tax services provided.

All related party transactions are made in arms length transactions on normal commercial terms and conditions. Outstanding balances at period end are unsecured and settlement occurs in cash.

Wholly owned group transactions

Loans from Katana Capital Limited to its wholly owned subsidiary are repayable on demand, unsecured and interest free, though are not expected to be repaid within the next 12 months. Loan balance to subsidiary at 30 June 2007 $480,733 (2006: nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

14. RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

(a) Reconciliation of operating profit after income tax to net cash outflow from operating activities

	CONSOLIDATED		PARENT	
	2007 $	2006 $	2007 $	2006 $
Net profit	7,510,531	1,060,378	7,315,988	1,060,378
Adjustments for:				
Gain recognised on remeasurement to fair value of held for trading investments	(7,225,500)	(744,492)	(6,994,726)	(744,492)
Loss recognised on remeasurement to fair value of exchange trade options	70,141	47,775	71,786	47,775
Changes in assets and liabilities				
(Increase)/ decrease in trade and other receivables	(345,985)	(58,080)	(353,537)	(58,080)
(Increase)/ decrease in financial assets held for trading	(16,190,851)	(13,922,491)	(15,656,956)	(13,922,491)
(Increase)/ decrease in other assets	-	(26,063)	-	(26,063)
(Decrease)/ increase in trade and other payables	90,859	1,222,258	90,859	1,222,258
(Decrease)/ increase in current tax liabilities	489,675	18,411	429,204	18,411
(Decrease)/ increase in deferred tax liabilities	2,538,786	361,271	2,469,540	361,271
Net cash flow used in operating activities	(13,062,344)	(12,041,033)	(12,627,842)	(12,041,033)

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise listed securities, cash and short-term deposits.

The main purpose of these financial instruments is to generate a return on the investment made by shareholders.

The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally options.

The main purpose is to manage financial risks associated with the Group's investment transactions, and as a means of effecting a change in the asset mix. Investments in derivatives are not used to gear the Group's investment portfolio, and are limited to the asset allocation for the underlying investment class.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, market price risk, foreign currency risk and liquidity risk. The Fund Manager reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

For a detailed analysis on the Group's risk management policies please refer to page 46 of this report under the heading "Compensation of other key management personal" within 12 (d) under the sub heading "Mandate".

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

(a) Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to market risk for changes in interest rates relate primarily to investments held in interest bearing instruments. The Group's policy is to invest in accordance with the parameters as set out in the Investment mandate.

(b) Credit risk
Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

Concentrations of credit risk are minimised by the Group primarily by:

- Carrying out all on market transactions through approved brokers.
- Settling non-market transactions with the involvement of suitably qualified legal and accounting personnel, both internal and external, with the support of the Fund Manager.
- The Fund Manager undertaking detailed due diligence on potential investments.

Receivables comprise dividends receivable and interest accrued on interest bearing investments and the call deposit.

Maximum credit risk to which the entity is exposed is the recorded carrying value.

(c) Market Price Risk
Market price risk represents the risk that the value of a financial instrument will fluctuate as result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

Market risk is minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

(d) Liquidity and Cash Flow Interest Rate Risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow interest rate risk is the risk that future cash flows on a financial instrument will fluctuate because of changes in market interest rates.

To control liquidity and cash flow interest rate risk, the Group invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Group invests within established investment guidelines to ensure there is no concentration of risk.

The carrying amounts of financial instruments recorded in the financial statements represent their fair value determined in accordance with the accounting policies recorded in Note 1.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

16. FINANCIAL INSTRUMENTS

(a) Fair Values

The carrying amounts of financial instruments recorded in the financial statements represent their fair value determined in accordance with the accounting policies recorded in Note 1.

(b) Derivative financial instruments

A derivative is a financial contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as convertible notes, forwards, futures, options and swaps.

Exchange traded options (ETO's) are considered to be part of the Group's normal investment process. The use of options form part of the Group's portfolio management and they are used to manage financial risks associated with the Group's investment transactions, and as a means of effecting a change in the asset mix. the Group's policy for managing its Risk for ETO's is to ensure it only writes ETO's against shares that it physically holds.

(c) Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

2007	**Floating interest rate**	**Fixed interest maturing in:**			**Non interest bearing**	**Total**
		1 year or less	**over 1 to 5 years**	**more than 5 years**		
	$	**$**	**$**	**$**	**$**	**$**
Financial assets						
Cash assets	13,240,092	-	-	-	-	13,240,092
Weighted average interest rate	5.95%					
Financial Liabilities						
Interest bearing liabilities	10,121	-	-	-	-	10,121
	10,121	-	-	-	-	10,121
Weighted average interest rate	6.47%	-	-	-	-	
Net financial assets	13,229,971	-	-	-	-	13,229,971

2006	**Floating interest rate**	**Fixed interest maturing in:**			**Non interest bearing**	**Total**
		1 year or less	**over 1 to 5 years**	**more than 5 years**		
	$	**$**	**$**	**$**	**$**	**$**
Financial assets						
Cash assets	8,715,857	-	-	-	-	8,715,857
Weighted average interest rate	5.35%					
Financial Liabilities						
Interest bearing liabilities	12,331	-	-	-	-	12,331
	12,331	-	- -	-	12,331	
Weighted average interest rate	6.26%	-	- -	-		
Net financial assets	8,703,526	-	- -	-	8,703,526	

16. FINANCIAL INSTRUMENTS CONTINUED

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. There were no off balance sheet activities.

17. SEGMENT INFORMATION

Industry segment
The entity operates solely in the financial investment industry.

Geographical segments
The entity operates from one geographic location, being Australia, from where its investing activities are managed.

18. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The options outstanding at 30 June 2007, as disclosed in Note 10. are not considered dilutive for the year ended 30 June 2007.

The weighted average number of converted and lapsed potential ordinary shares included in diluted earnings per share calculation is 1,571,368 for the year ended 30 June 2007 (2006: nil).

The following reflects the income and share data used in the basic and diluted earnings per share computations.

	Consolidated	
	2007 $	**2006 $**
Net profit attributable to shareholders	7,510,531	1,060,378
Weighted average number of shares for basic earnings per share (No.)	24,722,986	15,001,465
Basic earnings per share for net profit attributable to shareholders (cents)	30.38	7.1
Weighted average number of shares for diluted earnings per share (No.)	26,294,354	15,001,465
Diluted earnings per share for net profit attributable to shareholders (cents)	28.56	7.1

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

19. COMMITMENTS AND CONTINGENCIES

There are no contingent liabilities or contingent assets as at 30 June 2007 (nil – 30 June 2006).

Katana Capital Limited has entered into a 10 year Management Agreement with the Fund Manager, Classic Capital Limited. Under the terms of the contract the Fund Manager the Manager is obliged to manage the investment portfolio on behalf of Katana Capital Limited. A management fee is payable to the manager as follows:

- The Fund Manager will receive a monthly management fee equal to 0.104167% of the portfolio value calculated at the end of the month
- Performance fee to be paid in respect of each performance calculation period of 18.5% of the amount by which the Fund Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June).

20. EVENTS AFTER THE BALANCE SHEET DATE

On 19 September 2007 the company declared a final dividend for the 30 June 2007 financial year of 2.5 cents per share. Besides the final dividend declaration, the Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operations of the company or the results of those operations, or the state of affairs of the company in subsequent financial years.

21. AUDITORS REMUNERATION

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Amounts received or due and receivable by Ernst & Young Australia				
- auditing or reviewing the financial report	37,500	37,500	37,500	37,500
- other services	-	36,740	-	36,740
	37,500	74,240	37,500	74,240

22. DIVIDENDS PROPOSED, PAID AND PAYABLE

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Declared during the year and paid/ payable				
- final dividend for 2006: 1.5 cents (31.9% franked)	321,000	-	321,000	-
- interim (2 cents) and special (2 cents) dividends for 2007 (37% franked)	1,480,974	-	1,480,974	-
	1,801,974	-	1,801,974	-
Proposed and not recognised as a liability				
- final dividend for 2007: 2.5 cents (100% franked)	1,042,120	-	1,042,120	-

22. DIVIDENDS PROPOSED, PAID AND PAYABLE CONTINUED

	PARENT ENTITY	
	2007	2006
	$	$
Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (2006: 30%)	17,382	24,401

The above amounts represent the balances of the franking accounts at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
(d) franking credits that may be prevented from being distributed in subsequent financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Katana Capital Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable;

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007; and

(d) the financial statements are in accordance with the provisions of the Company's Constitution.

On behalf of the Board
Katana Capital Limited

Peter Wallace
Director

Perth, 27 September 2007

AUDITORS' REPORT

ERNST & YOUNG

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Australia

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Perth WA 6843

Tel 61 8 9429 2222
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Independent auditor's report to the members of Katana Capital Limited

We have audited the accompanying financial report of Katana Capital Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

AUDITORS' REPORT

ERNST & YOUNG

Independence
In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion
In our opinion:

1. the financial report of Katana Capital Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of Katana Capital Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Ernst & Young

Ernst & Young

C B Pavlovich
Partner
Perth
27 September 2007

CORPORATE GOVERNANCE STATEMENT

ASX Corporate Governance Council has published the 'Principles of Good Corporate Governance and Best Practice Recommendations'. Katana Capital Limited ("Katana Capital") has addressed those Guidelines and these are covered in more detail on the Company's website at www.katanacapital.com.au

More specific information on the Company's corporate governance principles follows:

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least 3 and a maximum of 7 directors and should maintain a majority of non-executive directors;
- the chairperson must be a non-executive director,
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet on a regular basis and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Directors in office at the date of this statement are:

Name	Position
Dalton Gooding	Chairman
Peter Wallace	Non Executive Director
Derek La Ferla	Non Executive Director
Giuliano Sala Tenna	Non Executive Director

The Corporate Governance Council of the ASX published the 'Principles of Good Corporate Governance and Best Practice Recommendations'. Council Guidelines imply that the ideal is to have a Board consisting of a majority of independent non-executive directors. The independence of each director has been assessed according to the ASX's definition of independence. All board members of Katana Capital are non-executive and are considered to be independent directors.

Nomination Committee

The Board has not established a nomination committee, however the main board acts as the nomination committee which discusses at least annually, the established guidelines, including when necessary, selecting candidates for the position of Director.

Audit & Risk Management Committee

The Board has established an audit & risk management committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Responsible Entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes.

This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the entity to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

CORPORATE GOVERNANCE STATEMENT

The members of the audit & risk management committee during the period were:
- Peter Wallace (Chairman)
- Dalton Gooding
- Giuliano Sala Tenna

The audit & risk management committee is also responsible for:
- directing and monitoring the internal audit function (when required and implemented); and
- nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review.

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways. The responsibility for the operation and administration of the investments are delegated by the Board to the Fund Manager. The Board ensures that the Fund Manager is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Fund Manager.

The company has adopted a formal mandate that sets out the functions reserved for the Fund Manager (Classic Capital Ltd) including those responsibilities delegated to the Fund Manager.

Specifically the Fund Manager is responsible for:
- setting strategic direction of the Fund and monitoring management's performance within that framework;
- monitoring and overseeing the day to day management of the Investment portfolio which is undertaken by the Manager in accordance with the Investment Management Agreement;
- monitoring and approving financial reporting for Katana Capital Limited
- monitoring risk management, corporate governance and capital management for Katana Capital Limited; and
- ensuring that the Fund Manager is and remains appropriately skilled to meet the changing needs of the Company.

The Chairman is responsible for leading the Board in these duties. The Fund Manager is responsible for the efficient and effective operation of the portfolio management, including bringing material matters to the attention of the Board.

Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- the annual report, which is distributed to all shareholders;
- the half-yearly report, distributed to all shareholders.

ADDITIONAL ASX INFORMATION

DISTRIBUTION OF SHARES AND OPTIONS AS AT 31 AUGUST 2007

Distribution of holdings	Fully Paid Shares Number of holders
1-1,000	9
1,001 – 5,000	75
5,001 – 10,000	189
10,001 – 100,000	333
100,001 and over	62
	668

20 LARGEST SHAREHOLDERS AS AT 25 SEPTEMBER 2007

Fully Paid Shares

Holder	Shares	%
WONDER HOLDINGS PTY LTD	2,200,000	5.28
HOPERIDGE ENTERPRISES PTY LTD	2,000,000	4.80
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	1,934,300	4.64
ORION EQUITIES LIMITED	1,200,000	2.88
MRS LINDA SALA TENNA + MRS LISA SHALLARD	1,050,000	2.52
COOLAH HOLDINGS PTY LTD	1,010,000	2.42
JOVE PTY LTD	1,000,000	2.40
TAXA JUNO NOMINEES PTY LTD	800,000	1.92
MR ROMANO SALA TENNA + MRS LINDA SALA TENNA	760,000	1.82
MISS LISA DUPEROUZEL	750,000	1.80
MR GORDON ANTHONY	699,667	1.68
BLIGH PTY LTD	640,000	1.54
MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL	580,000	1.39
CAMBO INVESTMENTS PTY LTD	500,000	1.20
MR KENNETH CARSON + MR ROBIN GERRARD THYSSEN	500,000	1.20
KEFIR PTY LTD	500,000	1.20
LEDGE FINANCE LTD	500,000	1.20
MRS LINDA SALA TENNA	500,000	1.20
UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA)	500,000	1.20
COLLORI PTY LTD	400,000	0.96
	18,023,967	43.25

SUBSTANTIAL SHAREHOLDERS

	Fully Paid Shares	%
WONDER HOLDINGS PTY LTD	2,200,000	5.28

VOTING RIGHTS

Each shareholder is entitled to receive notice of and attend and vote at general meetings of the company. At a general meeting, every shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and on a poll, one vote for each share held. Any shares which are not fully paid shall be entitled to a fraction of a vote equal to that proportion of a vote that the amount paid on the relevant share bears to the total issue price of the share.

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