KATANA CAPITAL LTD

ANNUAL REPORT 2006

CONTENTS

WELCOME LETTER FROM THE CHAIRMAN

Dear Shareholder

I am pleased to report that in its first year of operations since listing on the ASX, Katana Capital Limited has reported a net profit after tax of $1.060m for the period ended 30 June 2006. This is a strong performance given the difficult trading conditions encountered soon after listing in December 2005. The earnings per share for the period ended 30 June 2006 was 7.1 cents.

Starting from a base after allowing for listing costs of $0.97, the NTA before tax of the Company has shown strong growth since December 2005 rising to $1.041 per share at 30 June 2006. Our most recently reported NTA for the period ended 31 August 2006 shows a NTA per share before tax of $1.094.

The Company together with its Investment Manager ("Classic Capital Ltd") are satisfied with the initial performance of the portfolio, with investment income totalling approximately $1.91m. The majority of this income was generated from equity holdings, despite the fact that the portfolio was predominantly in cash for much of this period. The ability to provide shareholders with unique access to new issues has been a key focus of the Company's business model, and the Investment Manager believes that solid progress is being made in this respect. The Board of Directors and the Investment Manager are however, keen to continue to expand the network of corporate and institutional contacts and to maximise the access to corporate opportunities.

The Company has continued to maintain its disciplined approach to investment in what has been an extremely competitive investment environment. As at 30 June 2006, the cash backing of the Fund had fallen to 37% of NTA from 100% at listing, reflecting a positive approach to our net investment activity.

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

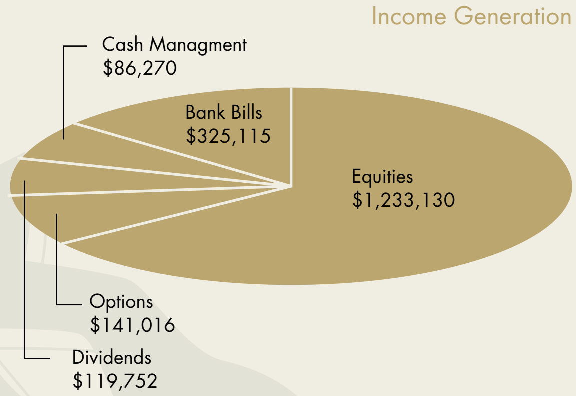
OVERVIEW

Classic Capital Pty Ltd as manager ('Investment Manager') for Katana Capital Limited ('Company') is pleased to present its inaugural report on the performance of the Company's portfolio since the Initial Public Offer (IPO) to June 30th 2006.

PERFORMANCE OF THE PORTFOLIO SINCE LISTING

The Investment Manager is satisfied with the initial performance of the portfolio with investment income totalling approximately $1.91m. The majority of these returns were generated from equity holdings, despite the fact that the portfolio was predominantly in cash for much of this period.

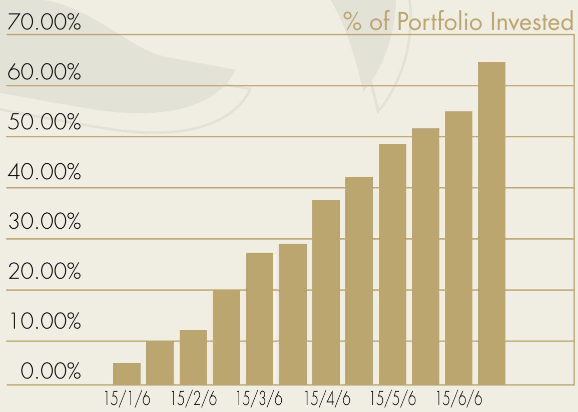
In percentage returns, the portfolio yielded an investment return of 9.4%. This compared favourably to the Company's stated benchmark – the All Ordinaries index – which returned 6.9% over the same period.



PORTFOLIO ACTIVITY

The six months to June 30th represents a unique period in the establishment of the portfolio. Subsequent to listing on the 23rd of December 2005, the Investment Manager worked methodically and progressively to establish some core holdings, along with some more opportunistic trading positions.

The Investment Manager was conscious that in the first quarter of the 2006 calendar year, the market had appreciated at an unsustainable rate. Accordingly, whilst the Investment Manager worked to identify potential equity holdings, the decision was made to maintain an overweight cash position until such time as the market presented a better entry point.



The subsequent pullback in May and June provided such an opportunity, and the Investment Manager moved to increase the equity exposure in the portfolio from approximately 40% to a level approaching 65%.

The low average level of equity investment over the initial period has impacted the performance of the portfolio. The Manager is confident that a solid foundation has now been established to capitalise on any future uplift in the domestic equity market

SUMMARY OF INVESTMENTS AS AT 30TH JUNE 2006

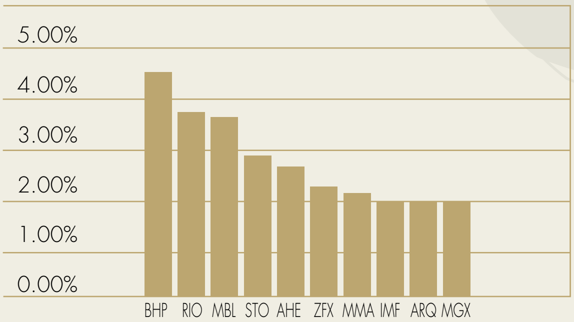
Asset Class	Current Balance	% of Portfolio
Equities	$14,646,983	62.63%
Options	$20,000	0.09%
Cash Management	$2,740,264	11.72%
Bank Bills	$5,975,593	25.56%
	$23,382,840	**100.00%**

As at the close of the 2006 financial year, the portfolio had cash reserves of approximately $8.7m or 37% of the total value.

The Manager believes that significant value remains at the top end of the market, and accordingly has taken overweight positions in BHP Billiton Limited, RIO Tinto Limited and Macquarie Bank Limited. History has demonstrated that the larger market capitalisation companies have provided the best risk-return profiles over the long term. Accordingly, they remain the preferred focus where value exists.

Additionally, the directionless but volatile nature of the current market lends itself well to (covered) option writing, with premiums ranging from between 2% - 5% per month. To this end the Manager has established weightings above and beyond long-term core holdings in selected companies.

Top 10 Current Holdings



The Manager remains bullish on the medium term outlook for the price of oil. Five (5) oil-producing companies have been added to the portfolio as at balance date, with the largest of these holdings being Santos Limited.

In the emerging end of the market, the portfolio has notable holdings in Automotive Holdings Group Limited, Zinifex Limited, IMF (Australia) Limited and Mount Gibson Iron Limited.

In total, the portfolio now contains some 45 companies. Many of these holdings are underweight in respect of the anticipated long term positioning, and will be selectively added to over the coming months.

ACTIVITY SINCE BALANCE DATE AND OUTLOOK

Of note since balance date is the significant position that the Company has established in Mineral Resources Limited (ASX code MIN), as released to the ASX on the 14/07/2006. The Company owns a total of 1.7 millions shares in MIN, obtained through the IPO at an issue price of $0.90 per share. Shares in MIN closed at $1.15 on the 31st of July 2006.

The ability to provide shareholders with unique access to new issues has been a key focus of the Company's business model, and the Manager believes that solid progress is being made in this respect. The Board of Directors and the Manager are however keen to continue to expand the network of corporate and institutional contacts, to maximise the access to corporate opportunities.

The Manager notes that the current sentiment towards Australian equities is patchy and volatile. Additionally, capital appreciation over the coming 12 months is likely to be below the level experienced over the previous corresponding period.

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

- Continuing belief that the commodity price cycle has some distance to run
- Level of takeover and merger activity that is gaining momentum
- Strength of corporate balance sheets; average company gearing is at an historically low level, supporting the capacity for increased dividends, special dividends, capital returns and share buybacks
- Rising corporate earnings, albeit slowly.

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

Brad Shallard
Investment Manager
Classic Capital Ltd

Romano Sala Tenna
Investment Manager
Classic Capital Ltd

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 2006 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 FAIBF, FAICD, AFAIM, SIA (aff), CD
(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 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, ASIA, 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 10 years in various fields and is currently a Senior Manager Distribution with HFA Asset Management, an Australian based fund of hedge fund manager with over $2.6 billion assets under management.

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 Ordinary Shares	Number of *(i)* Options Over Ordinary Shares
D L Gooding	50,000	50,000
P Wallace	150,000	150,000
D La Ferla	50,000	50,000
G Sala Tenna	50,000	50,000

(i) Options were issued in November 2005 as part of a share placement to raise working capital for ASX Initial Public Offering (IPO) Expenses, the options have the same terms as those issued to shareholders who participated in the IPO offering. The options expire 31 May 2007 with an exercise price of $0.95

EARNINGS PER SHARE

Earnings per share for the current period was 7.1 cents per share. The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 15,001,465.

DIVIDENDS

Since the end of the previous financial period, no amount has been paid or declared by the Company by way of dividend.

CORPORATE INFORMATION

Katana Capital Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 19 September 2005. Accordingly this is the first financial report for the company prepared for the period 19 September 2005 to 30 June 2006.

The registered office is located at 2 the Esplanade, PERTH, WESTERN 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 2006 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 Investment Manager (Classic Capital Limited) to provide investors with access to comprehensive investment techniques aimed at providing strong capital and income returns.

The Investment Manager is satisfied with the initial performance of the portfolio, with investment income totalling approximately $1.91m. The majority of these returns were generated from equity holdings, despite the fact that the portfolio was predominantly in cash for much of this period.

In percentage returns, the portfolio yielded an investment return of 9.4%. This compared favourably to the Company's stated benchmark – the All Ordinaries index – which returned 6.9% over the same period.

Operating Results for the Period

The profit before tax for the period was $1,439,945 and profit after tax for the period was $1,060,378.

Operating costs for the period were kept to a minimum, with initial start up administration costs coming in at 2.35% of funds under management. It is expected that this operating cost ratio will reduce in future periods as the total funds under management increase.

Investments for future performance

The ability to provide shareholders with unique access to new issues has been a key focus of the Company's business model, and the Investment Manager believes that solid progress is being made in this respect. The Board of Directors and the Investment Manager are however keen to continue to expand the network of corporate and institutional contacts, to maximise the access to corporate opportunities.

The Investment Manager notes that the current sentiment towards Australian equities is patchy and volatile. Additionally, capital appreciation over the coming 12 months is likely to be below the level experienced over the previous corresponding period.

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

- Continuing belief that the commodity price cycle has some distance to run
- Level of takeover and merger activity that is gaining momentum
- Strength of corporate balance sheets; average company gearing is at an historically low level, supporting the capacity for increased dividends, special dividends, capital returns and share buybacks
- Rising corporate earnings, albeit slowly.

Capital Structure

During the period 21,200,000 ordinary shares were issued at $1 each as part of an initial public offering ("IPO"), in addition a pre-IPO placement of 200,000 ordinary shares at $0.75 each were allotted in October 2005.

Cash from Operations

Net cash outflows used in operations was $12,041,033 during the period. This reflects the Company investing into the Australian equities market during the initial start up investment phase, with the Company investing approximately 63% of its cash during this start up period.

Net cash flows for the financial period ending 30 June 2007 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.

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, however at the date of this report there are 21.4m options with a strike price below the spot price. If all options were converted into fully paid shares by option holders this would raise an additional $20.3m in equity.

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 Investment Manager as required. The Board together with the Investment Manager is responsible for all matters associated with risk management.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period the company issued its IPO Prospectus and raised $21,350,000 and listed on the Australian Stock Exchange on 23 December 2005.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to balance date the Company announced on 14 July 2006 a significant investment of $1,530,000 in Mineral Resources Limited (ASX code "MIN"). The Company owns a total of 1.7 millions shares in MIN, obtained through the MIN IPO at an issue price of $0.90 per share. Shares in MIN closed at $1.42 on the 16th of September 2006.

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 and pre-expense 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 21,400,000 listed options as at the date of this report represented by:

- 21,200,000 options exercisable at $0.95 expiring 31 May 2007, issued to shareholders as part of the Initial Public Offering in December 2005; and
- 200,000 options exercisable at $0.95 expiring 31 May 2007, as part the pre-IPO placement in November 2005, issued to the directors who participated in the placement to raise working capital for ASX Initial Public Offering (IPO) Expenses.

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 period no options were exercised to acquire 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 Investment 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.

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.

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.

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 period ended 30 June 2006 is detailed in Table 1 of this report.

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)

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.

Table 1: Directors' remuneration for the year ended 30 June 2006

		Short Term benefits				Post Employment	Equity	Other	Total	
		Salary & Fees $	Other $	Cash STI $	Cash LTI $	Superannuation $	Options $	Termination $	$	% Performance related
D L Gooding	2006	35,107	–	–	–	3,159	–	–	38,266	–
P Wallace	2006	23,500	–	–	–	2,115	–	–	25,615	–
D La Ferla	2006	23,500	–	–	–	2,115	–	–	25,615	–
G Sala Tenna	2006	23,500	–	–	–	2,115	–	–	25,615	–
G Chiappini	2006	20,682	–	–	–	–	–	–	20,682	–

(i) D Gooding was appointed to the Board on 11 November 2005.

(ii) P Wallace was appointed to the Board on 19 September 2005.

(iii) D La Ferla was appointed to the Board on 19 September 2005.

(iv) G Sala Tenna was appointed to the Board on 19 September 2005.

Options granted as part of remuneration for the period ended 30 June 2006

There were no options issued to directors as part of their remuneration package, please refer to page 8 under the heading "Interests in the shares and options of the Company", for details relating to options issued to directors as part of a placement prior to the IPO.

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit & Risk Management	Compliance
Number of meetings held:	8	1	1
Number of meetings attended:			
Dalton Gooding (i)	4	1	N/A
Peter Wallace (ii)	8	1	1
Derek La Ferla (iii)	8	–	1
Giuliano Sala Tenna (iv)	8	1	N/A

(i) D Gooding was appointed to the Board on 11 November 2005.
(ii) P Wallace was appointed to the Board on 19 September 2005.
(iii) D La Ferla was appointed to the Board on 19 September 2005.
(iv) G Sala Tenna was appointed to the Board on 19 September 2005.

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 independent declaration from our auditors Ernst & Young, as presented on page 16 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 received or are due to receive the following amounts for the provision of non-audit services:

Independent Accountant's Report – Prospectus for IPO	$36,740

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

Dalton L Gooding
Chairman
Dated: 28 September 2006
Perth, Western Australia

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 period ended 30 June 2006, 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
28 September 2006

	Note	2006 $
Investment Income		
Dividends		119,752
Interest		411,385
Changes in fair value of investments held for trading		1,281,921
Changes in fair value of options		92,225
Total Investment Income		1,905,283
Expenses		
Administration		87,978
Directors' fees and expenses		138,097
Interest Expense		2,352
Legal and professional fees		40,672
Investment manager's fees		196,239
Total expenses		465,338
Profit before income tax		1,439,945
Income tax expense attributable to operating profit	2	(379,567)
Net Profit attributable to members of Katana Capital Limited		1,060,378
Basic and diluted earnings per share (cents per share)	17	7.1

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

	Note	2006 $
Current Assets		
Cash and cash equivalents	3	8,715,857
Trade and other receivables	5	58,080
Financial assets held for trading	6	14,666,983
Other assets	5	26,083
Total Current Assets		23,467,003
Total Assets		23,467,003
Current Liabilities		
Trade and other payables	7	1,222,258
Financial liabilities	7	47,775
Interest bearing liabilities	8	12,331
Income tax liability	2	18,411
Total Current Liabilities		1,300,775
Non Current liabilities		
Deferred tax liability	2	218,140
Total Non Current Liabilities		218,140
Total Liabilities		1,518,915
Net Assets		21,948,088
Equity		
Issued Capital	9	20,887,710
Retained Earnings	10	1,060,378
Total Equity		21,948,088

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

CASH FLOW STATEMENT

FOR THE PERIOD FROM DATE OF INCORPORATION ON 19 SEPTEMBER 2005 TO 30 JUNE 2006

	Note	2006 $
Cash flows from operating activities		
Proceeds on sale from financial assets		7,989,222
Payments for purchases of financial assets		(20,160,098)
Payments to suppliers and employees		(340,862)
Interest paid		(2,352)
Interest received		411,385
Dividends received		61,672
Net cash outflows from operating activities	13(a)	(12,041,033)
Cash flows from financing activities		
Proceeds from issue of shares		21,350,000
Share issue expenses		(605,441)
Proceeds from borrowings		12,331
Net cash inflows from financing activities		20,756,890
Cash at end of the period	13(b)	8,715,857

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

	Issued Capital $	Retained Earnings $	Total Equity $
Profit for the period	–	1,060,378	1,060,378
Capital raising expenses net of tax	(462,290)	–	(462,290)
Total recognised income and expense for the period	(462,290)	1,060,378	598,088
Issue of share capital	150,000	–	150,000
Shares issued on Initial Public Offering in December 2005	21,200,000	–	21,200,000
At 30 June 2006	**20,887,710**	**1,060,378**	**21,948,088**

1. Corporate Information

The company was incorporated on 19 September 2005. Accordingly this is the first annual financial report for the company, prepared for the period 19 September 2005 to 30 June 2006.

Katana Capital Limited is incorporated and domiciled in Australia.

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

Summary of Significant Accounting Policies

(a) Basis of accounting

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 valuation of investments held for trading in financial assets and derivative financial instruments, which have been measured at fair value.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS')

(c) 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 Investment 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.

(d) 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.

(iii) Changes in the fair value of investments held for sale

Gains or losses on investments are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) Earnings per share

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

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.

(l) 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.

(m) Application of Accounting Standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to Accounting Policy	Application Date of Standard*	Application Date for Group
2005–1	AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005–4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005–5	AASB 1: *First-time adoption of AIFRS*, *AASB 139: Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005–10	AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 101: *Presentation of Financial Statements*, AASB 114: *Segment Reporting*, AASB 117: *Leases*, AASB 133: *Earnings Per Share*, AASB 139: *Financial Instruments; Recognition and Measurement*, AASB 1: *First-time adoption of AIFRS*, AASB 4: *Insurance Contracts*, AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
AASB 7	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

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

The following amendments are not applicable to the Fund and therefore have no impact.

AASB Amendment	Affected Standard(s)
2004–3	AASB 1, AASB 101 and AASB 124 as a result of the revised AASB 119.
2005–9	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments: Recognition and Measurement and AASB 132: Financial Instruments: Disclosure and Presentation
2005–3	AASB 119: Employee Benefits
2005–6	AASB 3: Business Combinations
2006–1	AASB 121: The Effects of Changes in Foreign Exchange Rates
2006–2	AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting
UIG Interpretation	UIG Interpretation Reference 4, 5, 6, 7 ,8 and 9.

(n) 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.

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 (ETO's)

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 carried as assets when their fair value is positive and as liabilities when their fair value is negative. 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.

(o) 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.

(p) Pension benefits

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

(q) Pension benefits

Defined contribution plan

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

2. INCOME TAX

	2006 $
(a) Aggregate current and deferred tax asset arising in reporting period and recognised in the profit or loss:	
Current tax charge	18,411
Deferred tax – relating to originating temporary differences	361,156
	379,567
Income tax expense is attributable to:	
Profit from continuing operations	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)
(c) Numerical reconciliation of income tax expense to prima facie tax payable	
Profit from continuing operations before income tax expense	1,439,945
Tax at the Australian tax rate of 30%	431,984
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Non-deductible expenses	3,147
Franking credits	7,929
Franking rebate	(26,431)
Other	(37,062)
	379,567

	2006 $
(d) Deferred income taxes	
Deferred tax liabilities	
The balance comprises temporary differences attributable to:	
Dividends receivable	17,424
Fair value adjustment – unrealised	343,732
Share issue costs	(143,016)
	218,140
Movements:	
Credited directly to equity	(143,016)
Charged to the income statement	361,156
Closing balance at 30 June 2006	218,140

NOTE 3. CASH AND CASH EQUIVALENTS

	2006
	$
Cash at bank	2,740,263
Short Term Bank Bills	5,975,597
	8,715,857

Short term bank bills have an approximate term of 30 days
and have been achieving a yield of between 5.4% and 6.07%

4. ADJUSTMENT TO APPENDIX 4E

The results of the company for the year ended 30 June 2006 differed from those announced in the un-audited preliminary final statement (Appendix 4E) made to the Australian Stock Exchange as follows:

	Audited Financial Statements $	Preliminary Financial Statements $
Profit before income tax	1,439,945	1,493,371
Income tax attributable to members of Katana Capital Ltd	(379,567)	(395,595)
Net Profit attributable to members of Katana Capital Ltd	**1,060,378**	**1,097,776**

The changes in the above results arose following a review of the performance fee payable to the Investment Manager, Classic Capital Limited. Please refer to note 11 on page 29 of this report for further information on the performance fee, the directors have decided to accrue for the amount owing $53,427, with a tax effect of $16,028.

5. RECEIVABLES & OTHER CURRENT ASSETS

	2006 $
Dividend receivable	58,080
Prepayments – insurance	20,540
GST recoverable	5,543
	84,163

6. FINANCIAL ASSETS HELD FOR TRADING

	2006 $
Listed Securities at fair value	
Listed Equities	14,646,983
Unlisted securities at fair value	
Futures account	20,000
	14,666,983

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 on the balance sheet date.

The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates.

Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in the income statement, are reasonable and the most appropriate at the balance sheet date.

7. CURRENT LIABILITIES – PAYABLES

	2006 $
Unsettled trades – listed equities	1,074,186
Exchange Traded options – at fair value (i)	47,775
Trade Creditors	18,794
Employee pay as you go tax instalments	6,516
Accrual – Classic Capital Management fee	122,763
	1,270,034

(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 27 July 2007.

8. INTEREST BEARING LIABILITIES

	2006 $
Current	
Premium funding – Insurance	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 6.26%.

9. ISSUED CAPITAL

	2006 $	2006 Number
Ordinary shares		
Movement in shares on issue		
Private Placement October 2005	150,000	200,000
Initial Public Offering @ $1.00 – December 2005	21,200,000	21,200,000
Less capital raising expenses net of tax	(462,290)	–
	20,887,710	**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.

Options on Issue

There were 21,400,000 listed options as at 30 June 2006 represented by:

- 21,200,000 options exercisable at $0.95 expiring 31 May 2007, issued to shareholders as part of the Initial Public Offering in December 2005; and
- 200,000 options exercisable at $0.95 expiring 31 May 2007, as part the pre-IPO placement in November 2005, issued to the directors who partcipated in the placement to raise working capital for the ASX Initial Public Offering (IPO) Expenses.

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

10. RETAINED EARNINGS

	2006 $
Net profit after tax attributable to members of the company	1,060,378
Balance at the end of the period	**1,060,378**

11. 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)

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

	Number of Ordinary Shares	Number of *(i)* Options Over Ordinary Shares
D L Gooding	50,000	50,000
P Wallace	150,000	150,000
D La Ferla	50,000	50,000
G Sala Tenna	50,000	50,000

(i) Options were issued in November 2005 as part of a share placement to raise working capital for ASX Initial Public Offering (IPO) Expenses, the options have the same terms as those issued to shareholders who participated in the IPO offering. The options Expire 31 May 2007 with an exercise price of $0.95

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.

		Short Term benefits				Post Employ-ment	Equity	Other	Total	
		Salary & Fees $	Other $	Cash STI $	Cash LTI $	Super-annuation $	Options $	Termin-ation $	$	% Performance related
D L Gooding	2006	35,107	–	–	–	3,159	–	–	38,266	–
P Wallace	2006	23,500	–	–	–	2,115	–	–	25,615	–
D La Ferla	2006	23,500	–	–	–	2,115	–	–	25,615	–
G Sala Tenna	2006	23,500	–	–	–	2,115	–	–	25,615	–
G Chiappini	2006	20,682	–	–	–	–	–	–	20,682	–

Investment Manager

B Shallard – Director Classic Capital Limited
R Sala Tenna – Director Classic Capital Limited

The Company has entered into the Management Agreement with the Investment 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 Investment Manager is not in breach of the Management Agreement; and

(3) the Investment 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 Investment 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 Investment 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 Investment Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;

(2) the Investment Manager's AFSL is suspended or cancelled at any time for any reason;

(3) the Investment 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 Investment Manager in writing to remedy that default or breach;

(4) the Investment 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 Investment Manager;

(6) a change in control of the Investment Manager occurs without the Investment Manager obtaining at least 30 days prior written consent from the Company;

(7) the Investment 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;

(8) the Investment 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 Investment 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 Investment 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 Investment 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 Investment Manager will receive a monthly management fee equal to 0.104167% of the Portfolio value calculated at the end of each month.

(2) Performance Fee

Performance fee to be paid in respect of each performance calculation period of 18.5% of the amount by which the Investment Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June).

Mandate

The Investment 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 Investment 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 Investment 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 Investment 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 Australiangovernment 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 Investment Manager's AFSL; and

(11) any other investment, or investment of a particular kind, approved by the Company in writing as and where permitted by the Investment 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 Investment 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 Investment 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 investmen opportunities and prevailing market conditions. The Investment 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 Investment 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%

Asset allocation

The Investment 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 Perfomance 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 Investment 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.

12. Related Parties

(a) Directors

The names of the persons who were Directors of Katana Capital Limited at any time during the financial year 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 year 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 $128,531 for legal services provided.

(ii) Mr Dalton Gooding is a partner of Gooding Pervan Chartered Accounting firm and as part of providing taxation advisory services, Gooding Pervan received $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 year end are unsecured and settlement occurs in cash.

13. 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

	2006 $
Net profit	1,060,378
Adjustments for:	
Gain recognised on remeasurement to fair value of held for trading investments	(744,492)
Loss recognised on remeasurement to fair value of exchange trade options	47,775
Changes in assets and liabilities:	
(Increase)/decrease in trade and other receivables	(58,080)
(Increase)/decrease in financial assets held for trading	(13,922,491)
(Increase)/decrease in other assets	(26,063)
(Decrease)/increase in trade and other payables	1,222,258
(Decrease)/increase in current tax liabilities	18,411
(Decrease)/increase in deferred tax liabilities	361,271
Net cash flow from operating activities	(12,041,033)

(b) Reconciliation of cash

	2006 $
Cash management at bank	2,740,263
Short Term Bank Bills	5,975,597
	8,715,857

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

For a detailed analysis on the company's risk management policies please refer to page 31 of this report under the heading "Investment Manager' within the Key Management Personal section.

(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 Company's exposure to market risk for changes in interest rates relate primarily to investments held in interest bearing instruments. The Company'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 Company 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 Investment Manager.
- The Investment 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 Company 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 Company invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Company 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.

15. 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 Company's normal investment process. The use of options form part of the Company's portfolio management and they are used to manage financial risks associated with the Company's investment transactions, and as a means of effecting a change in the asset mix. 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.

(c) Interest Rate Risk

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

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	–	–	–	8,715,857
	8,715,857	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	12,331	–	–	–	12,331
Weighted average interest rate	6.26%		–	–	–	
Net financial assets	8,703,526	8,703,526	–	–	–	8,703,526

IInterest 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 noninterest bearing and are therefore not subject to interest rate risk. There were no off balance sheet activities.

16. 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.

17. 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 on issue as disclosed in Note 9. are not considered to be dilutive for the period ended 30 June 2006.

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

	2006
Net profit after tax attributable to shareholders	1,060,378
Weighted average number of shares for basic and diluted earnings per share (no.)	15,001,465
Basic earnings per share for net profit attributable to shareholders (cents)	7.1

18. COMMITMENTS AND CONTINGENCIES

Katana Capital Limited has entered into a 10 year Management Agreement with the Investment Manager, Classic Capital Limited. Under the terms of the contract the Investment 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 Investment 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 Investment Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June).

19. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance date the Company announced on 14 July 2006 a significant investment of $1,530,000 in Mineral Resources Limited (ASX code MIN). The Company owns a total of 1.7 millions shares in MIN, obtained through the initial public offering (IPO) at an issue price of 90c per share. Shares in MIN closed at $1.42 on the 16th of September 2006.

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 are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Company's financial position as at 30 June 2006 and of its 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 2006; and

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

On behalf of the Board
Katana Capital Limited

Dalton Gooding
Chairman

Perth, 28 September 2006

ERNST & YOUNG

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Australia

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Perth WA 6843

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Independent audit report to members of Katana Capital Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Katana Capital Limited (the company) and the consolidated entity, for the period ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 11 to 13 of the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the Directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

ERNST & YOUNG

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Katana Capital Limited is in accordance with:

(a) 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 2006 and of their performance for the period ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained on pages 11 to 13 of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

Ernst & Young

C B Pavlovich
Partner
Perth
28 September 2006

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, to ensure that the Board continues to operate within 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.

The members of the audit & risk management committee during the year 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 Investment Manager. The Board ensures that the Investment Manager is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Investment Manager.

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

Specifically the Investment 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 Investment 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 Investment 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 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.

DISTRIBUTION OF SHARES and OPTIONS as at 31 August 2006

Distribution of holdings	Fully Paid Shares Number of holders	Options Number of holders
1-1,000	2	–
1,001 – 5,000	121	119
5,001 – 10,000	141	122
10,001 – 100,000	215	202
100,001 and over	28	31
	507	474

20 LARGEST SHAREHOLDERS AS AT 22 SEPTEMBER 2006

Fully Paid Shares

Holder	Shares	%
ORION EQUITIES LIMITED	1,200,000	5.61
MR GORDON ANTHONY	1,050,000	4.91
HOPERIDGE ENTERPRISES PTY LTD	1,050,000	4.91
WONDER HOLDINGS PTY LTD	1,000,000	4.67
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	767,700	3.59
COOLAH HOLDINGS PTY LTD	600,000	2.80
KATANA EQUITY PTY LTD	525,000	2.45
MS LISA DUPEROUZEL	500,000	2.34
JOVE PTY LTD	500,000	2.34
S & M O'REILLY PTY LTD	400,000	1.87
BS CAPITAL PTY LTD	365,000	1.71
BELL POTTER NOMINEES LTD	314,000	1.47
CAMBO INVESTMENTS PTY LTD	250,000	1.17
KEFIR PTY LTD	250,000	1.17
LEDGE FINANCE LTD	250,000	1.17
MRS LINDA SALA TENNA	250,000	1.17
UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA)	250,000	1.17
BLIGH PTY LTD	240,000	1.12
MR BRAD JOHN SHALLARD + MS LISA MAREE DUPEROUZEL	215,000	1.00
COLLORI PTY LTD	200,000	0.93
	10,176,700	47.57

20 LARGEST OPTIONHOLDERS as at 22 September 2006

Options expiring 31 May 2007, exercise price $0.95

Holder	Options	%
ORION EQUITIES LIMITED	1,200,000	5.61
MR GORDON ANTHONY	1,100,000	5.14
WONDER HOLDINGS PTY LTD	1,000,000	4.67
HOPERIDGE ENTERPRISES PTY LTD	750,000	3.50
BEERSHEBA INVESTMENTS PTY LTD		
KATANA EQUITY PTY LTD	525,000	2.45
JOVE PTY LTD	525,000	2.45
MS LISA DUPEROUZEL	500,000	2.34
MR KENNETH CARSON + MR ROBIN GERRARD		
THYSSEN	420,000	1.96
COOLAH HOLDINGS PTY LTD	400,000	1.87
S & M O'REILLY PTY LTD	400,000	1.87
BS CAPITAL PTY LTD	400,000	1.87
BELL POTTER NOMINEES LTD	365,000	1.71
ACS CORPORATE SERVICES PTY LTD	314,000	1.47
CAMBO INVESTMENTS PTY LTD	250,000	1.17
CRAWLEY INVESTMENTS PTY LTD	250,000	1.17
KEFIR PTY LTD	250,000	1.17
LEDGE FINANCE LTD	250,000	1.17
MRS LINDA SALA TENNA	250,000	1.17
UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA)	250,000	1.17
	9,649,000	45.10

SUBSTANTIAL SHAREHOLDERS

	Fully Paid Shares	%	Options	%
ORION EQUITIES LIMITED	1,200,000	5.61	1,200,000	5.61

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.

CORPORATE DIRECTORY

DIRECTORS

Dalton Gooding
Peter Wallace
Derek La Ferla
Giuliano Sala Tenna

COMPANY SECRETARY

Gabriel Chiappini

REGISTERED OFFICE

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Facsimile (08) 9323 2033

AUDITOR

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