2011 ANNUAL REPORT

KATANA

CAPITAL LTD

KATANA CAPITAL WILL COMBINE ITS LISTED INVESTMENT COMPANY STRUCTURE WITH THE PROVEN ABILITY OF ITS MANAGER ("KATANA ASSET MANAGEMENT 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.

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.

CORPORATE DIRECTORY

Katana Capital Limited
ABN 56 116 054 301

Directors
Dalton Gooding
Peter Wallace
Giuliano Sala Tenna

Company Secretary
Gabriel Chiappini

Registered Office
Level 36, Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

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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

CHAIRMAN'S LETTER

Dear Shareholder

The Financial Year ended 30 June 2011 (FY11) saw a continuation in the stability of our local equity market. Although during Q4 FY11 and post 30 June we have witnessed an increase in volatility on the back of the European Currency, Debt and Bank difficulties coupled with a potential slow-down in the global economy. During FY11 your company posted an after tax net profit of $3.94m.

As Chairman of Katana Capital I am pleased to report that in FY11 Katana out-performed the All Ordinaries Index again, this is the 6th time since our listing on the ASX that your company has out-performed the Index. In percentage terms and before General and Administrative expenses, the portfolio generated a return of 19.1% compared to the All Ordinaries Index return of 7.75%.

As noted, the Company reported a FY11 after tax net profit of $3.94m and with current cash reserves of approximately $10.5m or 30% of the value of the portfolio, we believe the Fund Manager has placed your Company in a strong and resilient position to move with and take advantage of the expected volatility in global and domestic markets.

The Company, via its Fund Manager Katana Asset Management, continues to have a focused long term investment philosophy which includes energy, (via thermal coal, liquefied natural gas, uranium and oil), resources and wealth management businesses that have strong cash flows, pricing power and robust business models, as reflected in our top 10 holdings.

The Company continues to have complete confidence in the Fund Manager concerning the ongoing management of the investment portfolio. On behalf of your board we would also like to take this opportunity to thank the Fund Manager for Outstanding performance since listing on the ASX.

On behalf of the Board of Directors I would also like to thank you for your continued support of the Company throughout this year.

Yours sincerely

Dalton Gooding
Chairman

Katana Asset Management Ltd as manager ('Manager') for Katana Capital Limited ('Company') is pleased to attach a report on the performance of the Company's portfolio for the 12 months to June 30th 2011.

INVESTMENT REPORT

THE MANAGER IS ONCE AGAIN DELIGHTED WITH THE PERFORMANCE OF THE FUND THROUGHOUT THE 2011 FINANCIAL YEAR.

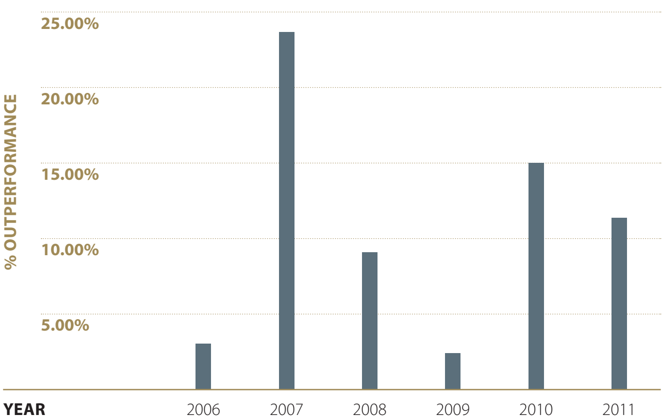
In percentage terms, the portfolio yielded a gross investment return of 19.10% before operating expenses and tax. The Company's stated benchmark - the All Ordinaries index – returned 7.75% over the same period. This is a significant relative outperformance of 146%.

Katana Capital Ltd listed in December 2005. Since listing, the Manager has outperformed the All Ordinaries index during each and every financial year. During this 6-year period, the Manager has produced an average gross investment return of 12.11% pa versus 1.35% pa for the All Ordinaries index. This is an excellent achievement, yielding an average outperformance of 84%per annum.

Year Ending	Katana Gross Investment Return	All Ords Index	Out Performance
2006	9.95%	6.90%	44.20%
2007	49.03%	25.36%	93.34%
2008	-6.41%	-15.49%	58.62%
2009	-23.57%	-25.97%	9.24%
2010	24.54%	9.55%	156.96%
2011	**19.10%**	**7.75%**	**146.45%**
Average	12.11%	1.35%	84.80%

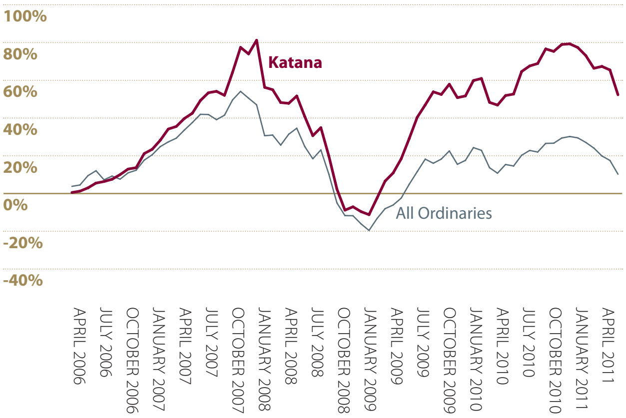
The following bar chart clearly summarises this continuous track record of out-performance by the Manager.

Katana outperformance over All Ords Index



The continuous yearly out-performance has contributed to a significant cumulative outperformance when taken across this period. As the following chart indicates, even against the All Ordinaries Accumulation index (i.e. All Ordinaries index including dividends), the Manager has achieved nearly 3 times the performance of the general market.

Katana Performance versus All Ordinaries Accumulation Index as at 30th June 2011



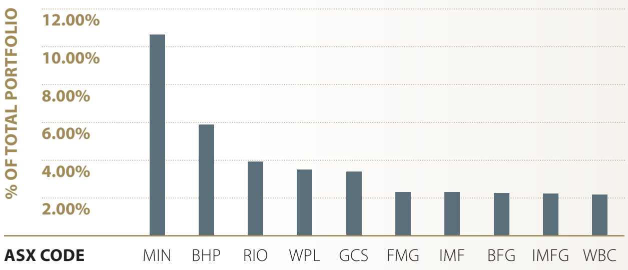
2011 Financial Year Review

The All Ordinaries index started the 2011 FY at 4325 and enjoyed a solid rally until early March testing the 5,000 level. During this period the Manager took advantage of the positive market sentiment to exit and/or trim some illiquid and small capitalized companies and increase positions in companies for which the Manager has a greater conviction. As a result, the number of companies held in the portfolio reduced from 72 to 64.

The market experienced its first decent pullback for the year when the tragic events of an earthquake/ tsunami/ nuclear disaster hit Japan which then triggered a mini correction. During this relatively small correction the Manager moved from circa 20% cash holdings to under 10% cash. The subsequent rally that followed witnessed the Manager reversing the low cash position back to approximately 20% in the month of April.

The Manager held an above average cash balance for much of the year due to macro concerns, most of which still remain and in fact have heightened at the time of this report. In particular the rapid appreciation of the AUD over the last 12 months - from $0.84 to AUD $1.07 - has had a pronounced impact on a cross-section of industries. Furthermore the Manager remained concerned regarding European sovereign debt issues, US economic growth slowing and US National debt starting to concern global markets, whilst the previously impervious Chinese economy experienced an escalating bout of inflation. Domestically, Australia experienced the split effects of a two speed economy with residential housing, retail, education, manufacturing, tourism and finance suffering whilst miners, mining services and oil and gas businesses continued to enjoy boom times. These issues were exacerbated by a minority Federal Government which caused great anxiety amongst investors through a raft of ill-conceived and poorly reviewed policy announcements.

Top 10 Current Holdings



The Fund still has maintained a large position in Mineral Resources Limited (MIN). The MIN position returned over 42% for the financial year however the position has been capped at 12% of the portfolio in accordance with the Manager's investment guidelines. In essence the Manager has been reducing the position of MIN as the share price has appreciated but maintaining a similar percentage position in the portfolio. The Manager still believes the MIN story is in a strong growth phase backed by exceptional management. However, prudent risk management dictates mandatory portfolio limits.

It is worth mentioning that during the financial year the Fund held less than 3% exposure to the discretionary retail sector and has remained significantly underweight the banking sector. The only notable exposure to the retail sector has been with the Automotive Holding Ltd position which currently is trading on a yield of over 7% fully franked.

The Manager's continued outperformance has been partly due to solid company analysis which assists in not only finding sound investments but also avoiding companies which may detract value from the portfolio. The robust company filter tests which the Manager overlays with the macro environment have helped enhance the quality of the portfolio.

The ongoing bias towards the resource sector contributed to the Fund's out performance over the All Ordinaries index. This bias is reflected in the Funds top ten holdings which include BHP Ltd, Rio Tinto Ltd, Fortescue Metals Groups Ltd and Mineral Resources Ltd. The Manager until recently has believed that the resource sector and the resource-servicing sector would continue to provide investors with superior returns. This is based on the view that Chinese economic growth continues to be driven by the ongoing urbanisation and industrialisation of the rural population. This view which the Manager has held since the Fund's inception in 2005 is currently under review.

As at the close of the 2011 financial year, cash reserves totalled approximately 20% of the value of the portfolio.

Outlook

Looking forward the Manager believes the consumer is still deleveraging which is supported by the data illustrating that the national savings rate is at a 20 year high. This trend has a material impact on consumer spending and credit growth and hence the manager's underweight positions in retail companies and the bank sector.

Despite current weak US economic data, the manager believes the US recovery (albeit tepid) remains intact and expects the data to improve in the second half of this year. This recovery will be assisted by lower oil prices and an extended period of record low interest rates. The rebuilding of the Japanese economy post the earthquake/tsunami will put further demand side pressures on commodities such as iron ore, coal (coking & thermal) and copper. The Chinese inflationary pressures have largely been the result of food prices (temporary) and housing (policy responses addressing developments). However, the Manager is currently reviewing their long held bullish thesis on China. If inflation in Asia has peaked then there will be a case for holding back any further interest rate rises. This would be positive for economic growth in Asia.

Europe will continue to be a cause of significant problems. The undercapitalized banks, anaemic economic growth in some European countries and the ongoing default concerns with the PIIGS (Portugal, Ireland, Iceland, Greece and Spain) will plague investor and consumer confidence and hamper world economic growth.

The manager is reminded that at times like these patience is truly a virtue and that sometimes the best thing to do is to do nothing at all. While valuations remain at historically cheap levels on a number of measures the manager will look for greater certainty before deploying fresh capital.

Corporate

During the 2011 financial year the company bought back 1,162,154 KAT shares under the share buyback scheme. This reduced the number of share on issue from 40,703,119 shares to 39,540,965 shares over the period. The average price at which the shares were purchased was 77 cents. This will increase the underlying value for all new and remaining shareholders.

The Fund has also moved towards paying dividends on a quarterly basis. For the 2010/11 financial year Katana Capital Ltd paid 4.25 cents fully franked. It is encouraging for the Manager that approximately 46% of shareholders have registered to participate in the dividend reinvestment program (DRP).

Much has been written about the discount to NTA for many Listed Investment Companies (LICs). However it is worth highlighting many of the benefits of Listed Investment Companies. These include:

- LICs can provide a steady flow of franked dividends
- the ongoing management expense ratios (MERs) are typically lower than managed funds
- LICs trade on the ASX and hence provide daily liquidity and
- Because LICs are a 'closed ended' fund, the fund managers is never a forced seller due to redemptions.

This last point in particular is very important.

Brad Shallard
Romano Sala Tenna

Investment Managers
Katana Asset Management Limited

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT WITH RESPECT TO THE RESULTS OF KATANA CAPITAL LIMITED (THE "COMPANY" OR "KATANA CAPITAL") AND ITS CONTROLLED ENTITIES (THE "GROUP") FOR THE YEAR ENDED 30 JUNE 2011 AND THE STATE OF AFFAIRS OF THE COMPANY AT THAT DATE.

Directors

The following persons were directors of Katana Capital Limited during the whole of the financial year and up to the date of this report:

Information on Directors

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 the managing partner of Gooding Partners 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 four years Mr Gooding has also served as a director of the following other listed companies:

Anatolia Energy Limited - appointed 29 November 2002 (resigned March 2011)

SIPA Resources Limited - appointed 1 May 2003

Avita Medical Limited - appointed 14 November 2002

Brierty Limited - appointed 26 October 2007

Peter Wallace *SF Fin, FAICD, AFAIM.*
(Non-Executive Director)

Mr Wallace was appointed to the Board on 19 September 2005. Mr Wallace has had 43 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 as Head of Corporate Advisory for Bell Potter Securities Ltd and 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:

Paladio Group Limited - appointed 25 October 2005, resigned 23 April 2009

RuralAus Investments Limited - appointed 12 July 2005, resigned 20 November 2009

Neptune Marine Services Limited - appointed 8 July 2011

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 14 years in various fields and is currently on the Institutional Equity Desk at Bell Potter Securities, one of Australia's largest full service stockbroking firms.

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, GAICD, CA

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 Investment Banking (UK), Property Development & Investment (UK), Oil & Gas (Australia), Telecommunications (Australia) and Biotechnology (Australia).

Directors' Meetings

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	MEETINGS OF COMMITTEES			
	Directors' meetings		**Audit and Compliance**	
	A	**B**	**A**	**B**
Dalton Gooding	7	7	2	2
Peter Wallace	7	7	2	2
Giuliano Sala Tenna	7	7	2	2

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Committee membership

As at the date of this report the Company had an Audit and Compliance Committee.

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

Peter Wallace (Chairman of Committee)

Dalton Gooding

Giuliano Sala Tenna

Directors' interest in Shares and Options

As at the date of this report, the interest of the directors in the shares and options of the Company are

	No. Shares 30 June 2011
Dalton Gooding	100,000
Peter Wallace	300,000
Giuliano Sala Tenna	100,000

There are no options outstanding as at 30 June 2011.

Earnings Per Share

	30 June 2011 Cents	30 June 2010 Cents
(a) Basic earnings per share		
Earnings from continuing operations attributable to the ordinary equity holders of the company	**9.78**	12.89

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 40,278,811 (2010: 41,177,638).

There are no dilutive securities on issue as at 30 June 2011.

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 2010:

	30 June 2011 $	30 June 2010 $
Final ordinary dividend for the year ended 30 June 2010 of 1.25 cents (2009 - 0.005 cents) per fully paid share paid on 4 October 2010	**505,700**	202,472
Interim ordinary dividend for the year ended 30 June 2011 of 1.00 cents (2010 - 1.5 cents per fully paid share paid paid 6 December 2010	**404,560**	614,024
Interim ordinary dividend for the year ended 30 June 2011 of 1.00 cents per fully paid share paid paid 28 February 2011	**401,382**	-
Interim ordinary dividend for the year ended 30 June 2011 of 1.00 cents per fully paid share paid paid 4 May 2011	**397,752**	-
	1,709,394	816,496

DIRECTORS' REPORT

30 JUNE 2011

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 6000, Australia.

Principal activity

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

Employees

As at 30 June 2011, the Group did not have any full time employees (2010: Nil).

Operating and Financial Review

Company overview

Katana Capital was incorporated in September 2005 as a listed investment company providing shareholders with access to the investment services of Katana Asset Management Limited ("Fund Manager"). The Fund Manager employs a benchmark unaware long only Australian Equities investment philosophy with active use of cash holdings as a defensive mechanism within the portfolio to deploy into market weakness. The portfolio does not incorporate gearing, derivatives or short selling of securities.

The Fund Manager was encouraged with the performance of Katana throughout the 2011 financial year. In percentage terms, the portfolio yielded a gross investment return of 19.1% before operating expenses and tax. The Company's stated benchmark - the All Ordinaries index – returned 7.75% over the same period. This is a significant relative out performance of 146%.

Operating results for the year

The profit before tax for the year was $5,135,547 (2010: $7,158,111) and profit after tax for the year was $3,940,477 (2010: $5,308,691).

Operating costs for the year were kept to a minimum, with administration costs (exclusive of Fund Manager's fees) coming in at 1.81% of funds under management (2010: 1.53%).

Investments for future performance

The Fund Manager will continue to:

Remain overweight mining and mining services while taking some select overweight positions in wealth management companies.

Continue to use cash as a defensive holding within the portfolio to deploy into market weakness

Be prepared to remain very active regarding stock turnover within the portfolio. The Fund Manager remains of the view that we are in a range bound market and hence should continue to buy the dips and sell the peaks.

The Fund Manager believes now more than ever that macro events are driving individual stock returns and hence is spending more time in consideration of the future prospects for China, how Sovereign debt issues may ultimately play out in Europe, what the United States continual growth in debt means along with inflationary expectations and monetary policy considerations.

Capital structure

There were no listed options converted into fully paid ordinary shares during the year.

Cash from operations

Net cash flows from operations was $709,207 during the year which reflects the Group's investment from the Australian equities market.

Net cash flows for the financial year ending 30 June 2012 are expected to increase subject to the Group 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 along with continuing dividend payments and share buybacks.

Risk management

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

Implementation of the risk management system and day to day management of risk is the responsibility of the Fund Manager. The Fund Manager is primarily responsible for all matters associated with risk management associated with the Equity Markets and Investment of the Group's funds and has formalised an Investment Committee that meets on a regular basis to review the Group's investments.

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the year.

Significant changes after balance date

A final fully franked dividend of 1.25 cents for the 30 June 2011 financial year was declared on 29 August 2011 by the Group. Following 30 June 2011 the Australian and Global Equity markets experienced it's most volatile period since the 2008 Global Financial Crisis. The Company is happy to report that it entered this period with approximately 25% of the portfolio in cash which was subsequently deployed into the market weakness as attractive valuations appeared. The Company remains comfortable with its current cash reserves to meet all dividend and operating expenses.

Other than the above, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

Environmental regulation and performance

The principal activities of the Group are not subject to any significant environmental regulations.

Share options

Unissued shares

There were no options outstanding as at 30 June 2011.

Shares issued on the exercise of options

There were no options exercised during the financial year to acquire fully paid ordinary shares in the Group.

Options granted as remuneration

There were no options granted as remuneration.

Remuneration Report *(Audited)*

This remuneration report outlines the director and executive remuneration arrangements of the Company and Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) and includes the five executives in the Group and group receiving the highest remuneration.

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, Katana Asset Management Ltd. Katana Asset Management 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 Group.

(a) Details of Key Management Personnel

The following persons were directors of Katana Capital Limited during the financial year:

(i) Chairman - non-executive

Dalton Gooding

(ii) Non-executive directors

Peter Wallace

Giuliano Sala Tenna

(b) Other key management personnel

In addition to the Directors noted above, Katana Asset Management 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 Katana Asset Management Limited are Brad Shallard and Romano Sala Tenna.

Officer

The company secretary is an officer of the Company but 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 Group and is not involved in the decision making process, with his main duties being aligned to his compliance function.

Remuneration philosophy

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

As a result of the independence and separation of Non Executive Directors' role of providing guidance and overview, the remuneration policy of the directors is not linked to company performance. However, Katana Asset Management Ltd's performance fees and management fees are linked directly to the performance of the Company.

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.

The Company does not have a policy that prohibits Directors and Executives from entering into arrangements to protect the value of unvested options. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Remuneration structure

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

(i) Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Group 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 10 November 2005.

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.

The Board considers that the majority of the Group's performance lies with the fund manager.

Each director receives a fee for being a director of the Group 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 2011 is detailed in Table 1 of this report.

(ii) Senior manager and executive director remuneration

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.

Employment contracts

As noted above the Group does not currently employ any executive directors or senior management, it does however have an agreement in place with Katana Asset Management Ltd to provide the Group with investment management services.

(iii) Compensation by other Key Management Personnel

No amount is paid by the Group directly to the Directors of Katana Asset Management Limited. Consequently, no compensation is paid by the Group to the Directors of Katana Asset Management 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 the amount of compensation is disclosed below.

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.

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 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 Agreement if:

(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;

(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.

The Board on a regular basis reviews the Management Agreement and Mandate to ensure compliance with the terms of the agreement.

Management and performance fees

Total management and performance fees paid by the Group to Katana Asset Management Ltd for the year ended 30 June 2011 was $1,325,709 (30 June 2010: $637,011) as follows:

(1) Management fee

The Fund Manager receives a monthly management fee equal to 0.104167% of the Portfolio value calculated at the end of each month. The fee for 2011 was $526,598 (2010: $497,511). The Directors and shareholders of Katana Asset Management Ltd are also shareholders in Katana Capital Limited.

(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 Fund Manager qualified to receive a performance fee for the financial year ended 30 June 2011 of $799,111 (2010: $139,500). For the financial year ended 30 June 2010, the Fund Manager qualified to receive a performance fee but chose to forgo 85% of their performance fee and accrued only 15% of the total fee payable for the Fund Manager's analyst.

Company performance

The profit/(loss) after tax for the group from 2007 is as follows:

	2011	2010	2009	2008	2007
Profit/(loss) after tax expense	**$3,940,477**	$5,308,691	($7,711,901)	($2,766,949)	$7,510,531
Earnings/(Loss) Per Share - cents	**9.78**	12.89	(18.53)	(6.64)	30.38
Share Price 30 June	**$0.84**	$0.66	$0.53	$0.96	$1.04

Remuneration of Directors and Key management personnel of the Company and the Group

2011

	SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	SHARE BASED PAYMENTS		
Name	**Salary and fees**	**Other[i]**	**Cash STI**	**Super-annuation**	**Termination benefits**	**Options**	**Total**	**% of remuneration which is performance based**
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Leslie Gooding	70,000	-	-	6,930	-	-	76,930	-
Peter Wallace	40,000	-	-	3,600	-	-	43,600	-
Giuliano Sala Tenna	40,000	-	-	3,600	-	-	43,600	-
Total non-executive directors	150,000	-	-	14,130	-	-	164,130	-
Company Secretary	-	-	-	-	-	-	-	-
Gabriel Chiappini	39,000	-	-	-	-	-	39,000	-
Key Management Personnel (KMP)								
Katana Asset Management Ltd	1,325,709	-	-	-	-	-	1,325,709	100%
Total non-executive directors, officers & KMP	1,514,709	-	-	14,130	-	-	1,528,839	-

i Insurance premiums have not been included in other remuneration.

2010

	SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	SHARE BASED PAYMENTS		
Name	Salary and fees	Other[i]	Cash STI	Super-annuation	Termination benefits	Options	Total	% of remuneration which is performance based
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Leslie Gooding	70,000	-	-	6,930	-	-	76,930	-
Peter Wallace	40,000	-	-	3,600	-	-	43,600	-
Giuliano Sala Tenna	40,000	-	-	3,600	-	-	43,600	-
Total non-executive directors	150,000	-	-	14,130	-	-	164,130	-
Company Secretary								
Gabriel Chiappini	37,500	-	-	-	-	-	37,500	-
Key Management Personnel (KMP)								
Katana Asset Management Ltd	637,011	-	-	-	-	-	637,011	100%
Total key management personnel compensation	824,511	-	-	14,130	-	-	838,641	

i Insurance premiums have not been included in other remuneration.

End of remuneration report (audited).

Indemnification of Directors andOfficers

The total amount of insurance contract premiums paid was $36,741 (2010: $39,650). This amount has not been included in Directors and Executives remuneration.

Auditor Independence and Non-Audit Services

The Directors have obtained an independence declaration from the Company's auditors Ernst & Young as presented on page 12 of this Annual report.

Non-Audit Services

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.

Dalton Gooding
Chairman

27 September 2011

Perth, Western Australia

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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 2011, 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

Peter McIver

P McIver
Partner
Perth
27 September 2011

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	CONSOLIDATED 30 June 2011 $	 30 June 2010 $
Investment income			
Dividends		**1,237,135**	1,135,699
Interest		**394,406**	375,652
Investment income	3	**5,604,804**	6,887,065
Total investment income		**7,236,345**	8,398,416
Expenses			
Fund manager's fees	13(a)	**(526,598)**	(497,511)
Legal and professional		**(91,383)**	(92,033)
Directors' fees and expenses		**(170,500)**	(170,500)
Administration		**(485,555)**	(340,761)
Performance fee	13(a)	**(799,111)**	(139,500)
Total expenses		**(2,073,147)**	(1,240,305)
Profit before income tax		**5,163,198**	7,158,111
Income tax (expense)	4	**(1,222,721)**	(1,849,420)
Profit from continuing operations after income tax		**3,940,477**	5,308,691
Profit for the year attributable to members of Katana Capital Limited		**3,940,477**	5,308,691
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year attributable to the members of Katana Capital Limited		**3,940,477**	5,308,691

		Cents	Cents
Earnings/(loss) per share attributable to the ordinary equity holders of the company:			
Basic earnings/diluted per share	18	**9.78**	12.89

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2011

	Notes	CONSOLIDATED 2011 $	2010 $
ASSETS			
Current assets			
Cash and cash equivalents	5	**5,594,058**	7,488,660
Trade and other receivables	6	**846,409**	227,537
Investments - held for trading	7	**34,695,404**	30,675,449
Other assets		**52,576**	87,194
Total current assets		**41,188,447**	38,478,840
Non-current assets			
Deferred tax assets	8	**-**	834,334
Total assets		**41,188,447**	39,313,174
LIABILITIES			
Current liabilities			
Trade and other payables	9	**1,347,352**	1,197,133
Dividends payable		**3,316**	3,316
Total current liabilities		**1,350,668**	1,200,449
Non-current liabilities			
Deferred tax liabilities	10	**388,428**	-
Total liabilities		**1,739,096**	1,200,449
Net assets		**39,449,393**	38,112,725
EQUITY			
Issued capital	11	**38,632,578**	39,526,993
Option premium reserve	12(a)	**101,100**	101,100
Retained earnings / (Accumulated losses)	12(b)	**715,715**	(1,515,368)
Total equity		**39,449,393**	38,112,725

The above consolidated balance sheet should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

CONSOLIDATED

	Notes	Issued capital $	Option premium reserve $	Retained earnings $	Total $
Balance at 1 July 2009		**40,081,234**	**101,100**	**(6,002,563)**	**34,179,771**
Profit for year		-	-	5,308,691	5,308,691
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**5,308,691**	**5,308,691**
Buy-back of shares	11	(554,241)	-	-	(554,241)
Dividends provided for or paid	12	-	-	(821,496)	(821,496)
Balance at 30 June 2010		**39,526,993**	**101,100**	**(1,515,368)**	**38,112,725**
Balance at 1 July 2010		**39,526,993**	**101,100**	**(1,515,368)**	**38,112,766**
Profit/(loss) for year		-	-	3,940,477	3,940,477
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**3,940,477**	**3,940,477**
Buy-back of shares	11	(894,415)	-	-	(894,415)
Dividends provided for or paid	12	-	-	(1,709,394)	(1,709,394)
Balance at 30 June 2011		**38,632,578**	**101,100**	**715,715**	**39,449,393**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Cash flows from operating activities			
Proceeds on sale of financial assets		**60,317,302**	49,304,572
Payments for purchases of financial assets		**(59,891,098)**	(47,934,000)
Payments to suppliers and employees		**(1,363,595)**	(1,059,687)
Interest received		**373,012**	372,080
Dividends received		**1,233,485**	1,100,965
Other revenue		**5,338**	2,002
Tax paid		**(34,763)**	4,982
Net cash inflow from operating activities	15	**709,207**	1,790,914
Cash flows from financing activities			
Dividends paid		**(1,709,394)**	(821,496)
Payments for shares bought back		**(894,415)**	(554,241)
Net cash outflow from financing activities		**(2,603,809)**	(1,375,737)
Net (decrease)/ increase in cash and cash equivalents		**(1,894,602)**	415,177
Cash and cash equivalents at the beginning of the financial year		**7,488,660**	7,073,483
Cash and cash equivalents at end of year	5	**5,594,058**	7,488,660

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 Corporate information

The financial report of Katana Capital Limited ("the Company") and its subsidiaries ("the Group" or the "Consolidated Entity") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 27 September 2011.

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 principle activities are described in the Directors' Report.

2 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, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis except for the investments held for trading and derivative financial instruments, which have been measured at fair value.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report comprises the financial statements of Katana Capital Limited and its subsidiaries.

The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

New Accounting Standards and Interpretations

The Group has adopted all of the new and amended Australian Accounting Standards and AASB Interpretations. The adoption of these did not have a material impact on the financial report.

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective. These have not been adopted by the Group for the annual reporting period ending 30 June 2011. The impact of these new or amended Accounting Standards whilst not expected to give rise to material changes in the Group's financial statements, are yet to be assessed.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Katana Capital Limited as at 30 June 2011 and the results of the subsidiary for the year then ended. Katana Capital Limited and its subsidiary together are referred to in this financial report as the "Group" or the "Consolidated Entity".

The subsidiary is the entity (including a special purpose entity) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The subsidiary is fully consolidated from the date on which control is transferred to the Company. It is de-consolidated from the date that control ceases.

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

2 Summary of significant accounting policies *(continued)*

(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, gains 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 and 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.

(e) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Interest income

Interest income is recognised on an accruals basis using the effective interest 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 instrument. Interest on cash on deposit is recognised in accordance with the terms and conditions that apply to the deposit.

(ii) Dividends

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

2 Summary of significant accounting policies *(continued)*

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(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.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(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.

2 Summary of significant accounting policies *(continued)*

(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 shares.

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;

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) Derivative financial instruments

The Group uses derivative financial instruments such as exchange 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 are taken directly to net profit or loss for the year.

Exchange traded options

The Group 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.

(n) 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.

(o) Pension benefits

Defined contribution plan

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

2 Summary of significant accounting policies *(continued)*

(p) Share based payments

Equity settled transactions

The Group can provide benefits to its employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

There are currently no formal plans in place to provide these benefits.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- Non-vesting conditions that do not determine whether the Group or Company receives the services that entitle the employees to receive payment in equity or cash, and
- Conditions that are linked to the price of the shares of Katana Capital Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

(a) The grant date fair value of the award.

(b) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.

(c) The expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity. Equity-settled awards granted by Katana Capital Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Katana Capital Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Group, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Shares in the Group reacquired on-market are classified and disclosed as reserved shares and deducted from equity.

(q) Parent entity financial information

The financial information for the parent entity, Katana Capital Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

2 Summary of significant accounting policies *(continued)*

(s) 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 Company 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.

3 Investment income

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Realised gains on investments held for trading	**4,101,913**	2,040,048
Unrealised gains on investments held for trading	**1,497,553**	4,777,296
Changes in fair value of options	**-**	67,719
Other income	**5,338**	2,002
	5,604,804	6,887,065

4 Income tax expense

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
(a) Income tax expense/(benefit)		
Current tax expense/(benefit)	**-**	-
Deferred tax	**1,222,761**	1,849,420
	1,222,761	1,849,420
Deferred income tax(benefit)/expense included in income tax expense comprises:		
Increase in deferred tax assets (note 8)	**1,314,175**	1,655,799
(Increase)/decrease in deferred tax liabilities (note 10)	**(91,414)**	193,621
	1,222,761	1,849,420
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**5,163,198**	7,157,632
Tax at the Australian tax rate of 30% (2010 - 30%)	**1,548,959**	2,147,290
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	**369**	291
Franking credits	**139,958**	127,784
Franking rebate	**(466,525)**	(425,945)
Income tax expense	**1,222,761**	1,849,420
Deferred tax assets expected to be recovered within 12 months	**493,064**	1,626,437
Deferred tax assets expected to be recovered after more than 12 months	**-**	180,803
	493,064	1,807,240
Deferred tax liabilities expected to be recovered within 12 months	**881,492**	972,906
Deferred tax liabilities expected to be recovered after more than 12 months	**-**	-
	881,492	972,906

5 Current assets - Cash and cash equivalents

	AT CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Cash at bank	**2,599,562**	2,523,639
Short term bank bills	**-**	4,965,021
Term deposits	**2,994,496**	-
	5,594,058	7,488,660

6 Current assets - Trade and other current receivables

	AT CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Unsettled trades - listed equities	**766,976**	173,148
Interest receivable	**26,233**	4,839
Dividend receivable	**53,200**	49,550
	846,409	227,537

There are no receivables past due or impaired.
Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

7 Current assets - Investments

	AT CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Equity securities- classified as held for trading	**33,799,196**	30,675,449
Convertible notes	**896,208**	-
	34,695,404	30,675,449

Held for trading investments consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate.
For fair value measurements refer to note 16(e).

8 Non-current assets - Deferred tax assets

	AT CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
The balance comprises temporary differences attributable to:		
Tax losses	**180,803**	1,703,532
Other		
Share issue costs	**-**	41
Provisions	**311,884**	92,747
Other	**377**	426
Investments	**-**	10,494
Total deferred tax assets	**493,064**	1,807,240
Set-off of deferred tax liabilities pursuant to set-off provisions (note 10)	**(493,064)**	(972,906)
Net deferred tax assets	**-**	834,334

Movements - Consolidated	**Tax losses $**	**Share issue costs $**	**Other $**	**Total $**
At 30 June 2009	3,387,592	35,835	39,612	3,463,039
(Charged)/credited directly to statement of comprehensive income	(1,684,060)	(35,794)	64,055	(1,655,799)
At 30 June 2010	1,703,532	41	103,667	1,807,240
At 30 June 2010	1,703,532	41	103,667	1,807,240
(Charged)/credited directly to statement of comprehensive income	(1,522,729)	(41)	208,594	(1,314,176)
At 30 June 2011	180,803	-	312,261	493,064

The deferred tax asset is being carried forward as an asset due to the company's view that the tax asset will be utilised as global stock exchanges correct themselves, global economic activity increases and the company realises profits.

9 Current liabilities - Trade and other payables

	AT CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Unsettled trades - listed equities	**292,302**	851,780
Accrual - Katana Asset Management Pty Ltd management fee	**133,994**	135,451
Trade creditors	**43,405**	40,063
Performance fee payable	**799,111**	139,500
Employee pay as you go tax instalments	**5,280**	5,280
Custody fees payable	**73,260**	25,059
	1,347,352	1,197,133

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

10 Non-current liabilities - Deferred tax liabilities

	AT CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
The balance comprises temporary differences attributable to:		
Deferred tax liabilities		
Investments	**848,699**	956,589
Dividends receivable	**15,960**	14,865
Other	**16,833**	1,452
Total deferred tax liabilities	**881,492**	972,906
Set-off of deferred tax liabilities pursuant to set-off provisions	**(493,064)**	(972,906)
Net deferred tax liabilities	**388,428**	-

Movements – Consolidated	Investments $	Other $	Total $
At 1 July 2009	774,460	4,825	779,285
Charged/(credited) to the statement of comprehensive income	182,129	11,492	193,621
At 30 June 2010	956,589	16,317	972,906
At 30 June 2010	956,589	16,317	972,906
Charged/(credited) to the statement of comprehensive income	-	-	-
At 30 June 2011	956,589	16,317	972,906

11 Issued Capital

	AT CONSOLIDATED ENTITY		AT CONSOLIDATED ENTITY	
	30 June 2011 Shares	30 June 2010 Shares	30 June 2011 $	30 June 2010 $
Ordinary shares				
Fully paid	**39,540,965**	40,703,119	**38,632,578**	39,526,993

(a) Movements in ordinary share capital:

Date	Details	Number of shares	$
1 July 2009	Opening balance	41,494,313	40,081,234
	Buy-back of shares	(791,194)	(554,241)
30 June 2010	Balance	40,703,119	39,526,993
1 July 2010	Opening balance	40,703,119	39,526,993
	Buy-back of shares	(1,162,154)	(894,415)
30 June 2011	Balance	39,540,965	38,632,578

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

During the period from July 2010 to June 2011, 1,162,154 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.77 with the price ranging from $0.61 to $0.89 per share.

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Management is constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. The Company defines its Capital as the total funds under management, being $41,188,447 at 30 June 2011 (30 June 2010: $38,478,840), including equities and cash reserves. The Company does not have any additional externally imposed capital requirements however has as a goal the ability to continue to grow assets under management and maintain a sustainable dividend return to shareholders. To assist with meeting its internal guidelines, Katana Asset Management Limited holds regular Investment Committee meetings to assess the equity portfolio.

12 Reserves and retained earnings / (accumulated losses)

	AT CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
(a) Reserves		
Option premium reserve	**101,100**	101,100

The option premium reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration.

(b) Retained profits/(accumulated losses)

Movements in retained earnings / (accumulated losses) were as follows:

	30 June 2011 $	30 June 2010 $
Balance 1 July	**(1,515,368)**	(6,002,563)
Net profit after tax attributable to members of the Company	**3,940,477**	5,308,691
Dividends	**(1,709,394)**	(821,496)
Balance 30 June	**715,715**	(1,515,368)

13 Key management personnel disclosures

(a) Key management personnel compensation

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Short-term employee benefits	150,000	150,000
Post-employment benefits	14,130	14,130
Management fee to Fund Manager	526,598	497,511
Performance fee to Fund Manager	799,111	139,500
	1,489,839	801,141

13 Key management personnel disclosures *(continued)*

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

2011

There were no options held by directors or Key Management Personnel during Financial Year 2011.

2010

Name	Balance at start of the year	Granted as compen-sation	Exercised	Expired	Balance at end of the year	Vested and exercisable	Unvested
Directors of Katana Capital Limited							
Dalton Leslie Gooding	250,000	-	-	(250,000)	-	-	-
Peter Wallace	250,000	-	-	(250,000)	-	-	-
Guiliano Sala Tenna	250,000	-	-	(250,000)	-	-	-
Other key management personnel of the Company							
Brad Shallard	-	-	-	-	-	-	-
Romano Sala Tenna	-	-	-	-	-	-	-
Katana Asset Management Ltd	-	-	-	-	-	-	-

(ii) Shareholdings

The numbers of shares in the Company held during the financial year by each director of Katana Capital Limited and other key management personnel of the Group, including their personally related parties, are set out below.

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.

2011

Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Katana Capital Limited				
Ordinary shares				
Dalton Leslie Gooding	**100,000**	**-**	**-**	**100,000**
Peter Wallace	**300,000**	**-**	**-**	**300,000**
Giuliano Sala Tenna	**100,000**	**-**	**-**	**100,000**
Other key management personnel of the Company				
Ordinary shares				
Brad Shallard	**2,095,395**	**-**	**91,214**	**2,186,609**
Romano Sala Tenna	**2,298,107**	**-**	**95,811**	**2,393,918**
Katana Asset Management Ltd	**-**	**-**	**-**	**-**

2010

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Katana Capital Limited				
Ordinary shares				
Dalton Gooding	100,000	-	-	100,000
Peter Wallace	300,000	-	-	300,000
Giuliano Sala Tenna	100,000	-	-	100,000
Other key management personnel of the Company				
Ordinary shares				
Brad Shallard	2,040,125	-	55,270	2,095,395
Romano Sala Tenna	2,267,870	-	30,237	2,298,107
Katana Asset Management Ltd	-	-	-	-

13 Key management personnel disclosures *(continued)*

(c) 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.

14 Related party transactions

(a) Directors

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

(b) Related party transactions

Transactions between the Parent Company and related parties noted above during the year are outlined below:

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding Partners received $33,664 (2010: $21,847) 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

There are no transactions with companies within the wholly owned group.

15 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Profit/(loss) for the year	**3,940,477**	5,308,691
(Gains)/losses recognised on measurement to fair value of held for trading investments	**(1,497,553)**	(4,777,295)
(Increase)/decrease in trade and other receivables	**(3,940,858)**	524,051
(Increase)/decrease in financial assets held for trading	**834,334**	(1,901,297)
(Increase) decrease in deferred tax assets	**150,219**	-
(Decrease)/increase in trade and other payables	**-**	756,777
(Decrease)/increase in current tax liabilities	**-**	30,567
(Decrease)/increase in deferred tax liabilities	**388,428**	1,849,420
Net cash inflow (outflow) from operating activities	**709,207**	1,790,914

16 Financial risk management

The Group activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Group overall risk management programme focuses on ensuring compliance with the Company's Investment Mandate and seeks to maximise the returns derived for the level of risk to which the Company is exposed.

The Group uses derivative financial instruments to alter certain risk exposures. Financial risk management is carried out by the Investment Manager under policies approved by the Board of Directors (the Board).

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk.

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

(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 Group 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.

16 Financial risk management *(continued)*

Portfolio composition and management

The aim of the Fund Manager is to build for the Group a portfolio of 20 to 60 companies, with an emphasis towards holding a larger number of smaller positions. Under the current Mandate, the Group'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 Group 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 Top 100/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 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 Group. These factors include:

global economy;

Australian economy and positioning within the economic cycle;

sectors within the Australian market;

phase of the interest rate cycle; and

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.

16 Financial risk management *(continued)*

(a) Market risk

(i) Price risk

The Company is exposed to equity securities, convertible notes and derivative securities price risk. This arises from investments held by the Company for which prices in the future are uncertain. Paragraph (ii) below sets out how this component of price risk is managed and measured. They are classified on the statement of financial position as held for trading. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board. The mandate specifies that 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.

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.

The table on page 36 summarises the impact of an increase/decrease in the Australian Securities Exchange All Ordinaries Index on the Company's net assets attributable to shareholders at 30 June 2011. The analysis is based on the assumptions that the index increased/decreased by 10% (2010 - 10%) with all other variables held constant and that the fair value of the Company's portfolio of equity securities and derivatives moved according to the historical correlation with the index. The impact mainly arises from the possible change in the fair value of listed equities, unlisted unit trusts and equity derivatives.

Foreign exchange risk

The Company does not hold any monetary and non-monetary assets denominated in currencies other than the Australian dollar.

(ii) Interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

Compliance with the Company's policy is reported to the Board on a monthly basis. The Company may also enter into derivatives financial instruments to mitigate the risk of future interest rate changes.

The table below summarises the Company's exposure to financial assets/liabilities at the balance sheet date.

	WEIGHTED AVERAGE INTEREST	YEAR ENDED CONSOLIDATED	
	Rate (% pa)	**30 June 2011**	30 June 2010
Financial Assets			
Cash and short term deposits - floating	4.68%	**5,594,058**	7,488,660

16 Financial risk management *(continued)*

(b) Summarised sensitivity analysis

The table below summarises the impact of an increase/decrease of interest rates on the Company's operating profit and net assets attributable to shareholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 50 basis points (2010: +/- 50 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of fixed interest securities.

The following table summarises the sensitivity of the Company's operating profit and other comprehensive income to interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Company's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Company invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	PRICE RISK			
	-10%	+10%	-50bps	+50bps
	Impact on Operating Profit		Impact on other comprehensive income	
30 June 2011	**(3,469,540)**	**3,469,540**	**-**	**-**
30 June 2010	(3,067,545)	3,067,545	-	-

	INTEREST RATE RISK			
	-50bps	+50bps	-50bps	+50bps
	Impact on Operating Profit		Impact on other comprehensive income	
30 June 2011	**(47,498)**	**47,498**	**-**	**-**
30 June 2010	(85,516)	85,516	-	-

(c) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

As at 30 June 2011 the Company does not hold any debt securities (30 June 2010: Nil).

The Company does trade in Exchange Traded Options. The Investment Manager has established limits such that, at any time, such that options are not traded without holding the physical security in the portfolio and contracts are with counterparties included in the Board's Approved Counterparties list. As at 30 June 2011 the Company did not hold any Exchange Traded Options (30 June 2010: Three).

Compliance with the Company's policy is reported to the Board on a monthly basis.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

The majority of cash assets are held with one bank.

(d) Liquidity 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 the 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 the Mandate guidelines to ensure that there is no concentration of risk.

The Company does not hold derivatives at 30 June 2011 (30 June 2010: Nil).

Financial liabilities of the Company comprise trade and other payables, distributions payable to shareholders. Trade and other payables have no contractual maturities but are typically settled within 30 days.

16 Financial risk management *(continued)*

(e) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2),and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2011. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group - as at 30 June 2011	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Assets				
Held for trading financial assets -				
Equity securities	**33,532,264**	**-**	**266,932**	**33,799,196**
Convertible notes	**896,208**	**-**	**-**	**896,208**
Total assets	**34,428,472**	**-**	**266,932**	**34,695,404**

Group - as at 30 June 2010	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held for trading financial assets -				
Equity securities	30,408,517	-	266,932	30,675,449
Total assets	30,408,517	-	266,932	30,675,449

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The following tables present the changes in level 3 instruments for the year ended 30 June 2011:

Group	**2011 $**	2010 $
Opening balance	**266,932**	406,932
Transfer into level 3	**-**	-
Other increases	**-**	-
Gains recognised in other comprehensive income	**-**	-
Loss recognised in profit or loss	**-**	(140,000)
Closing balance	**266,932**	266,932
Total gains for the period included in profit or loss that relate to assets held at the end of the reporting period	**-**	(140,000)

17 Segment information

For management purposes, the Group is organised into one main operating segment, which invests in equity securities, debt instruments, and related derivatives. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

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

The Group does not derive revenue of more than 10% from any one of its investments held.

18 Earnings per share

(a) Basic earnings per share

	YEAR ENDED CONSOLIDATED	
	30 June 2011 Cents	30 June 2010 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	**9.78**	12.89

There are no dilutive securities on issue as at 30 June 2011 (30 June 2010: Nil).

(b) Reconciliations of earnings used in calculating earnings per share

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Basic earnings per share		
Profit from continuing operations	**3,940,477**	5,308,691
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**3,940,477**	5,308,691

(c) Weighted average number of shares used as the denominator

	YEAR ENDED CONSOLIDATED	
	30 June 2011 Number	30 June 2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**40,278,811**	41,177,638
Adjustments for calculation of diluted earnings per share:		
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**40,278,811**	41,177,638

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.

There are no dilutive securities on issue as at 30 June 2011 (30 June 2010: Nil)

19 Events occurring after the reporting period

A final fully franked dividend of 1.25 cents per share for the 30 June 2011 financial year has been declared by the Company. The Directors note that other than the 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.

20 Remuneration of auditors

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
(a) Audit services		
Ernst & Young Australia		
Audit and review of financial reports	**49,000**	45,500
Total remuneration for audit and other assurance services	**49,000**	45,500
(b) Non-audit services		
Other services		
Other services	**-**	-
Total remuneration for audit and other assurance services	**-**	-
Total auditors' remuneration	**49,000**	45,500

21 Dividends

	YEAR ENDED PARENT ENTITY	
	30 June 2011 $	30 June 2010 $
Final dividend for the year ended 30 June 2010 of 1.25 cents (2009 - 0.005 cents) per fully paid share paid on 4 October 2010 (2009 - 17 December 2009)		
Fully franked (2009 - fully franked) per share	**505,700**	207,472
Interim dividend for the year ended 30 June 2011 of 1.00 cents (2010 - 1.00 cents) per fully paid share paid 6 December 2010 (2010 - paid 19 April 2010)	**404,560**	614,024
Interim dividend for the year ended 30 June 2011 of 1.00 cents per fully paid share paid 28 February 2011	**401,382**	-
Interim dividend for the year ended 30 June 2011 of 1.00 cents per fully paid share paid 4 May 2011	**397,752**	-
Total dividends provided for or paid	**1,709,394**	821,496

	YEAR ENDED CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	**264,732**	530,805

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

(a) franking credits that will arise from the payment of the amount 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.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

22 Parent entity financial information

	AT PARENT ENTITY 2011 $	2010 $
Balance sheet		
Current assets	**41,188,567**	38,478,836
Non-current assets	**-**	834,334
Total assets	**41,188,567**	39,313,170
Current liabilities	**1,378,318**	1,200,449
Non-current liabilities	**656,811**	-
Total liabilities	**2,035,129**	1,200,449
Shareholders' equity		
Contributed equity	**38,632,578**	39,526,993
Option premium reserve	**101,100**	101,100
Accumulated loss	**419,760**	(1,515,290)
	39,153,438	38,112,803
Profit or loss for the year	**3,940,477**	5,308,690
Total comprehensive income	**3,940,477**	5,308,690

Investment in controlled entity at cost

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

Tax consolidation legislation

Katana Capital Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2007.

(i) Members of the tax consolidated Group and the tax sharing arrangement.

Katana Capital Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group from 1 July 2007. Katana Capital Limited is the head entity of the tax consolidated Group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote. (see note 4).

(ii) Tax effect accounting by members of the tax consolidated Group

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differenced are recognised in the separate financial statements of the members of the tax consolidated Group using the Group allocation method. Current tax liabilities and assets and deferred tax assets arising from the unused tax losses and tax credits of the members of the tax consolidated Group are recognised by Katana Capital Limited, the head entity of the tax consolidated Group.

Members of the tax consolidated Group has entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the consolidated Group in relation to tax contribution amounts paid or payable between the parent entity and other members of the tax consolidated Group in accordance with this agreement. Where the tax contribution amount recognised by each member of the tax consolidated Group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the distribution is recognised as a contribution from (or distribution to) equity participants.

23 Commitments and contingencies

There are no contingent liabilities or commitments as at 30 June 2011 (2010: nil).

DIRECTORS' DECLARATION

30 JUNE 2011

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

(a) The financial statements and notes of the consolidated entity set out on pages 14 to 37 are in accordance with the Corporations Act 2001, including:

   (i) Giving a true and fair view of the financial position as at 30 June 2011 and the performance for the year ended on that date of the consolidated entity.

   (ii) Complying with Australian Accounting Standard (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2 (b)

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

(d) 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 year ending 30 June 2011

On behalf of the Board

Katana Capital Limited

Dalton Gooding
Chairman

27 September 2011

Perth, Western Australia

ERNST & YOUNG

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Independent auditor's report to the members of Katana Capital Limited

Report on the financial report

We have audited the accompanying financial report of Katana Capital Limited ("Katana"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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.

Independence

In conducting our audit we have complied with 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.

ERNST & YOUNG

Opinion

In our opinion:

a. 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 10 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Katana Capital Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Peter McIver

P McIver
Partner
Perth
27 September 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Katana Capital Limited (Katana) is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Katana on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the ASX Corporate Governance Council's corporate governance guidelines contained in Corporate Governance Principles and Recommendations (Second Edition Corporate Governance Guidelines), the Katana Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed it is disclosed together with reasons for the departure.

The Katana Corporate Governance Statement is structured with reference to the Second Edition Corporate Governance Guidelines, which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balances disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

For further information on corporate governance policies adopted by Katana, refer to our website www.katanacapital.com.au

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
1	**Lay solid foundations for management and oversight**		
1.1	Establish and disclose the functions reserved to the Board and those delegated to senior executives	✓	The Board has a Corporate Governance Statement which outlines the role and duties of the Board. The Company considers that the primary responsibility of the Board is to oversee the Company's business activities and management for the benefit of the shareholders by: (a) supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed which includes but is not limited to the points noted below: (b) ensuring the Company is properly managed by: (i) setting and communicating clear objectives; (ii) appointing and removing the Managing Director of the Company; (iii) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer and the Company secretary; (iv) input into and final approval of management's development of corporate strategy and performance objectives; (v) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance; (vi) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available; (c) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures; (d) approval of the annual budget; (e) monitoring the financial performance of the Company; (f) approving and monitoring financial and other reporting; (g) overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company; (h) liaising with the Company's external auditors either directly or via the Audit Committee as appropriate; and (i) monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety. Katana does not employ a Chief Executive Officer or Managing Director, but instead has a Fund Manager that is responsible for the Investment Risk Management and management of the equity Portfolio. The Fund Manager is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out their responsibilities the Fund Manager must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results. Matters which are not covered by the delegations require Board approval. The Corporate Governance Statement is available on the Company's website in the Corporate Governance section.

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
1.2	Disclose the process for evaluating the performance of senior executives	✓	There are no senior executives in the Company, however the board reviews the performance of the Fund Manager in accordance with the Mandate. Refer to Annual Report for Katana's mandate with the Fund Manager.
1.3	Provide the following information in the annual report:		
1.3.1	An explanation of any departure from recommendations 1.1, 1.2 and 1.3		Not applicable.
1.3.2	Whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.	✓	Refer 1.2, performance of the Fund Manager is reviewed by the board in accordance with the Fund Manager's Mandate.
2	**Structure of the Board to add value**		
2.1	A majority of the Board should be independent directors	✓	The majority of the Board is independent where an independent director is a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. The company currently has 2 out 3 of its directors classified as independent directors.
2.2	The chairperson should be an independent director	✗	The Chairman, Mr Gooding as noted above in 2.1 does not meet the Governance Council's independence criteria, however the board believes that Mr Gooding will at all times act independently and discharge his duties for the benefit of all shareholders. Mr Gooding is not strictly independent as noted above due to him being a Partner of Chartered Accounting firm Gooding Partners, which from time to time provides professional tax advice as required on a commercial basis, for further information refer to the related party note in the accounts. This is not considered to be a material transaction for Mr Gooding.
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual	✓	As noted in 1.1 & 1.2 above Katana does not employ a Chief Executive Officer but instead has a Mandate with the Fund Manager which covers some of the functions a traditional Chief Executive Officer would ordinarily perform. The Chairman, Mr Dalton Gooding, facilitates the relationship between the Board and the Fund Manager.
2.4	The Board should establish a nomination committee	✗	The Board does not have a Nomination Committee. The duties of such committee have been considered and adopted by the full Board. The Company does not have a documented procedure for the selection and appointment of directors. The Board informally reviews the skill set of and market expectations for its directors on a regular basis and considers these factors when appointing / re-electing directors. The Board invites persons with relevant industry experience and financial experience to assist it in its appointment of directors.
2.5	The process for evaluating the performance of the Board, its committees and individual directors should be disclosed.	✓	The Company does not have a documented procedure for the evaluating the performance of the Board, its committees and directors. An evaluation of the performance of the Board and its directors is undertaken informally each year. The Chairman of the Board is the driver of this process. This year the Chairman conducted interviews with each director. The evaluation of the performance of the Board's various committees is undertaken on an exception basis. This is also an informal process which is driven by the Chairman of the Board.

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
2.6	Provide the following information in the annual report:		
2.6.1	The skills, expertise and experience relevant to the position of director held by each director in office at the date of the annual report	✓	Provided in the Annual Report.
2.6.2	The names of the directors considered by the Board to be independent directors and the Company's materially thresholds	✓	Provided in the Annual Report.
2.6.3	A statement as to whether there is a procedure agreed by the Board of directors to take independent professional advice at the expense of the Company	✓	Individual directors have the right in connection with their duties and responsibilities as directors to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unnecessarily. If appropriate, any advice so received will be made available to all Board members.
2.6.4	The Board should state its reasons if it considers a director to be independent notwithstanding that the director does not meet the definition of independence contained in the ASX Guidelines	✓	Refer above at 2.2.
2.6.5	The period of office held by each director in office at the date of the annual report	✓	Provided in the Annual Report.
2.6.6	The names of members of the nomination committee and their attendance at meetings of the committee	✓	Provided in the Annual Report.
2.6.7	Whether a performance evaluation for the Board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed	✓	An evaluation of the Board, its committees and directors was undertaken and was in accordance with the process disclosed at 2.5.
2.6.8	An explanation of any departure from recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		Refer to comments at 2.1 and 2.2.
	(a) a description of the procedure for the selection and appointment of new directors to the Board	✗	Refer 2.4 - The Board informally reviews the skill set of and market expectations for its directors on a regular basis and considers these factors when appointing / re-electing directors. The Board invites persons with relevant industry experience and financial experience to assist it in its appointment of directors.
	(b) the charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for the committee	✗	Refer 2.4
	(c) the nomination committee's policy for the appointment of directors	✗	Refer 2.4

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
3	**Promote ethical and responsible decision making**		
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:	✓	The Company has implemented a suite of policies including a Code of Business Conduct which provides guidelines aimed at maintaining high ethical standards and corporate behaviour. The principals of the policies include: • Respect the law and act in accordance with it; • Respect confidentiality and not misuse company information, assets or resources; • Avoid real or perceived conflicts of interest; • Act in the best interest of stakeholders; and • Perform their duties in ways that minimise environmental impacts and maximise workplace safety. Directors and employees are expected to comply with all Company policies and to act professionally with integrity, honesty and responsibility at all times.
	(a) the practices necessary to maintain confidence in the Company's integrity;	✓	
	(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;	✓	
	(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;	✓	
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✗	Diversity policy to be developed and once finalised will be made available on the company's website
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✗	This disclosure has not yet been made, future annual reports will disclose the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women in the board	✗	This disclosure has not yet been made, future annual reports will disclose the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.
3.5	Provide related disclosures: • An explanation of any departure from Recommendation 3 • Posting to the company's web site any applicable code of conduct or a summary and the diversity policy or a summary of its main provisions	✗	Once the diversity policy has been developed the Company will evaluate how this can be met in considering future board and key executive appointments

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
4	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an audit committee	✓	The Audit, Compliance and Risk Committee assists the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management procedures and the internal and external audit function. In doing so, it is the Audit and Risk Committee's responsibility to maintain free and open communications between the Committee, the external auditors, the internal auditors and the management of the Company.
4.2	Structure the audit committee so that it consists of:		The committee complies with the structure as required by the Best Practice Recommendation 4.2.
	a) only non-executive directors	✓	
	b) majority of independent directors	✓	
	c) independent chairperson, who is not the chairperson of the Board	✓	
	d) at least three members	✓	
4.3	The audit committee should have a formal charter	✓	The Audit, Compliance and Risk Committee Charter is available on the Company's website in the Corporate Governance section.
4.4	Provide the following information in the annual report:		
	(a) Details of the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee	✓	Refer to Director's Report
	(b) The number of meetings of the audit committee	✓	Refer to Director's Report
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		
	(a) the audit committee charter	✓	The charter of the Audit, Compliance and Risk Committee is available on the Company's website in the Corporate Governance section.
	(b) information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners	✓	The committee manages the relationship between the Company and external auditor on behalf of the Board. It recommends to the Board potential auditors for appointment, re-appointment or replacement, the terms of engagement and remuneration of the external auditor.

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
5	**Make timely and balance disclosure**		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. These policies or a summary of the policies should be disclosed.	✓	The Company's continuous disclosure policy has been adopted to ensure compliance with obligations under the continuous disclosure regime of the Corporations Law and the Listing Rules of the Australian Stock Exchange Limited and to ensure that all Katana shareholders have access to material information about the Company and its prospects. The disclosure obligations include: • All employees, Company officers and Directors must comply with the ASX Listing Rules and Corporations Law provisions relating to a timely disclosure of price sensitive information to the ASX. The Company does this by releasing written announcements to the ASX. • The Fund Manager together with the board are accountable for the establishment, communication and maintenance of this policy and ensuring that material information is disclosed to the ASX.
5.2	Provide the following information in the annual report: An explanation of any departures from recommendations 5.1and 5.2 and reasons for the departure	✓	Not applicable. The Continuous Disclosure Policy can be found on the company's website. Not applicable.
6	**Respect the rights of shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	The Company places considerable importance on effective communications with shareholders and other stakeholders. Katana's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the company. The strategy provides for the use of systems that ensure a regular and timely release of information about the company is provided to shareholders. Mechanisms employed include: • Announcements lodged with ASX; • Half Yearly Report • Monthly Net Tangible Asset Backing ASX disclosure; • Presentations at the Annual General Meeting; • Annual Report • Promote effective communication with shareholders; and • Encourage shareholder participation at AGMs.
6.2	Provide the following information in the annual report:		
	An explanation of any departures from recommendation and reasons for the departure		Not applicable.
	A description of how the company will communicate with its shareholders publicly.	✓	The Company's Shareholder Communications Policy is available on the Company's website in the Corporate Governance section.

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
7	**Recognise and manage risk**		
7.1	The Company should establish policies on risk oversight and management.	✓	The Company is committed to the identification; monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. The Fund Manager is charged with implementing appropriate risk management systems within the Company and in particular with the investment process. The Board monitors and receives advice on areas from the Fund Manager on operational and financial risk, and considers strategies for appropriate risk management arrangements. The Fund Manager has an Investment Committee that meets on a regular basis to analyse, monitor and review the investment portfolio. Specific areas of risk identified initially and which will be regularly considered at Board meetings include financial performance, performance of portfolio, compliance within regulatory framework, markets, statutory compliance and continuous disclosure obligations. The Fund Manager has its own Investment Committee that regularly reviews the Company's portfolio and reviews the performance of individual stocks. The Investment Committee also makes recommendations on significant investments and conducts its own research to assist with this process. The annual report details material financial and investment risks which arose during the reporting period (see notes to financial statements).
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓	As part of the reporting process the Fund Manager has provided the Board prior to the Board approving the annual and half-yearly accounts, a written statement that the integrity of the financial statements (as per ASX Recommendation 4.1) are founded on a system of risk management and internal compliance and control which implements the Board's policies and the Company's risk management and internal control system is operating efficiently and effectively in all material matters.
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	✓	The Board has received assurance from the Fund Manager that the s295A declaration is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial risks.
7.4	Provide related disclosures:		
	- An explanation of any departures from any Principle 7 Recommendation;	✓	The company will provide explanation of any departures (if any) from best practice recommendations in its future annual reports.
	- Whether the Board has received the support from management under Recommendation 7.2;		The information is disclosed in the annual report
	- Whether the Board has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3.		The company's risk management policies are available on the company's website (within Audit Committee Charter
	- A summary of the company's policies on risk oversight and management of material business risks.		Not applicable

Principle	Corporate Governance best practice recommendation	Compliance	How we Comply
8	**Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee	✗	As the company does not presently have any employees including employment of a Managing Director and Senior Executives there is no requirement for remuneration committee
8.2	The remuneration committee should be structured so that it: • Consists of a majority of independent directors • Is chaired by the independent chair • Has at least 3 members	✗	Remuneration Committee has not been established as the company does not have any executives or employees
8.3	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives	✓	Refer Director's Report
8.4	Provide related disclosures:		
	- The names of the members of the Remuneration Committee and their attendance at meetings of the committee, or where a company does not have a Remuneration Committee, how the functions of a Remuneration Committee are carried out;	✗	Remuneration Committee has not been established as the company does not have any executives or employees
	- The existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors;		Not applicable
	- An explanation of any departures from any Principle 8 Recommendation;		Not applicable
	- The charter of the Remuneration Committee or a summary of the role, rights, responsibilities and membership requirements for that committee;		Not applicable
	A summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.		Not Applicable – no equity based remuneration schemes

ADDITIONAL ASX INFORMATION

Ordinary Fully Paid Shares (Total) As of 30 Sep 2011

Range of Units

Range	Total holders	Shares	% of Issued Capital
1 - 1,000	22	6,121	0.02
1,001 - 5,000	46	182,937	0.46
5,001 - 10,000	97	804,980	2.02
10,001 - 100,000	265	10,310,652	25.88
100,001 - 9,999,999,999	69	28,536,401	71.63
Rounding			-0.01
Total	499	39,841,091	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.75 per unit	667	21	5330

Top 20 Shareholders As at 5 October 2011

Rank	Name	Shares	%
1.	HOPERIDGE ENTERPRISES PTY LTD <JONES FAMILY A/C>	2,598,498	6.52
2.	WONDER HOLDINGS PTY LTD	2,518,139	6.32
3.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	2,051,550	5.15
4.	MR STEPHEN JAMES LAMBERT + MRS RUTH LYNETTE LAMBERT + MR SIMON LEE LAMBERT <LAMBERT RETIREMENT A/C>	1,721,382	4.32
5.	CLASSIC CAPITAL PTY LTD <BRL UNIT A/C>	1,180,768	2.96
6.	VERNON CHARLES WHEATLEY + JOYCELYN EDITH WHEATLEY <PULO RD SUPER FUND A/C>	1,070,577	2.69
7.	MR ROMANO SALA TENNA + MRS LINDA SALA TENNA <THE SALA TENNA SUPER A/C>	859,627	2.16
8.	TAXA JUNO NOMINEES PTY LTD <RONALD JAMES FAMILY A/C>	830,000	2.08
9.	BS CAPITAL PTY LTD <THE SHALLARD FAMILY A/C>	786,652	1.97
10.	MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL <THE SHALLARD SUPER FUND A/C>	757,563	1.90
11.	MRS LINDA SALA TENNA	572,305	1.44
12.	UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA) <UCIF A/C>	561,073	1.41
13.	CAMBO INVESTMENTS PTY LTD	519,699	1.30
14.	MR LAWRENCE HENRY DA SILVA	519,699	1.30
15.	KEFIR PTY LTD <SNOWBALL SUPER FUND A/C>	500,000	1.25
16.	METHUEN HOLDINGS PTY LTD <THE PB FAMILY A/C>	500,000	1.25
17.	J P MORGAN NOMINEES AUSTRALIA LIMITED	472,918	1.19
18.	COLLORI PTY LTD <ELLSEE INVESTMENT A/C>	400,000	1.00
19.	S & M O'REILLY PTY LTD <BONA VISTA A/C>	400,000	1.00
20.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	400,000	1.00
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**19,220,450**	**48.24**

KATANA
CAPITAL LTD

www.katanacapital.com.au