

# 2012 annual report



**KATANA**  
CAPITAL LTD

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## 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  
Telephone (08) 9220 9888  
Facsimile (08) 9220 9820  
[www.katanaasset.com](http://www.katanaasset.com)

#### **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**

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.

# chairman's letter

Dear Shareholder

The Financial Year ended 30 June 2012 (FY12) was another difficult year in global financial markets which bore witness to the All Ordinaries Index of Australian Equities declining 11.2%. As a result of this difficult investment environment your company generated a net loss after tax of \$5.209m.

The Financial year proved very difficult from the outset as economic data faltered, credit ratings of sovereign nations and large banks were downgraded, the resources trade unwound and European Union instability plagued the markets. While the portfolio performed poorly in the September quarter the Board was subsequently encouraged by a strong turnaround in performance in the March quarter where the portfolio delivered a positive 11.34%. This was in fact the best quarterly performance to begin a calendar year since inception of the firm.

Throughout FY12 the company remained focused on balance sheet strength of the underlying investments held within the portfolio. Katana Capital has performed well in regards to this matter avoiding many of the highly dilutive equity raisings.

Cash reserves as at the end of the financial year was \$9.540m. This was maintained at historically high levels throughout the most part of FY12 as the company remains cautious on several macroeconomic and geopolitical events. We are still unsure with respect to the future of the European Union and hence the Board remains firmly of the belief that capital preservation should be first and foremost in the company's mind.

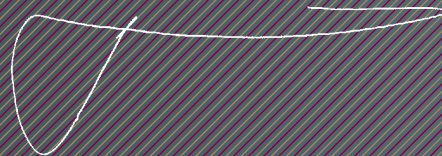
The company paid dividends totalling 1.75c fully franked over the course of FY12 and we are pleased to confirm a one cent (\$0.01) unfranked dividend for the quarter ending 30 September 2012, this was announced to the ASX on 26 September 2012.

The Company, via its Fund Manager Katana Asset Management, continues to have a focused long term investment philosophy which includes energy, (via liquefied natural gas, oil and unconventional sources), resources (copper and gold) and selective wealth management businesses that have strong cash flows, pricing power and robust business models.

On behalf of your board we would therefore like to take this opportunity to thank the Fund Manager for navigating this troubled time.

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

Yours sincerely



**Dalton Gooding**  
Chairman

# investment report

Katana Asset Management Ltd ('The Manager') has completed a report on the performance of Katana Capital Limited's portfolio for the 12 months to 30 June 2012.

## Performance Summary

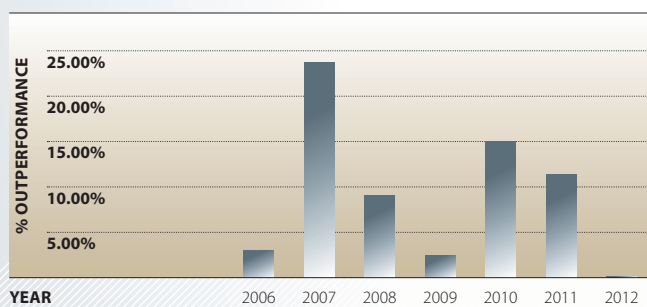
The Manager has been able to outperform the All Ordinaries Index in every one of the past six years. Whilst technically this record remains intact, the miniscule out-performance (as detailed below) is no cause for celebration. Conditions were particularly challenging during the year with the European crisis headlining the macro focus. This in turn dominated market sentiment and often over-rode company specific investment fundamentals.

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%
2012	-11.19%	-11.25%	0.53%
<b>Average</b>	<b>8.78%</b>	<b>-0.45%</b>	<b>72.76%</b>

Whilst disappointed with the most recent year's performance, the Manager believes that the portfolio is in particularly good shape in terms of underlying balance sheet strength, earnings, dividend metrics and quality of management.

Since inception, the Manager has delivered an average annual gross investment return (before operating expenses and tax) of 8.78% per annum. This compares favourably to the Company's stated benchmark - the All Ordinaries index, - which declined by an average of 0.45% per annum over the corresponding period.

## Katana outperformance over All Ords Index



The bar chart above summarises the Manager's track record of outperformance in each of the past seven years.

## 2012 Financial Year Review

The All Ordinaries index started the 2012 financial year at 4,659.79 points and dropped to a low of 3,927 points at the end of September 2011. It then broadly range traded between 4,000 and 4,500 points for the rest of the financial year and finished at 4,135 points. The Manager continued its FY11 strategy of exiting and/or trimming some illiquid and small capitalized companies and increasing its position in companies in which it has a high conviction. This resulted in a further reduction in the number of companies held in the portfolio from 64 to 47 as at 30 June 2012.

The European Financial Crisis dominated the market throughout FY12 and frustratingly, only glacial progress was made in finding an acceptable solution to the flawed construction of the European Union. The process has been and remains unwieldy, with countries unable to devalue their currency to enhance their own competitiveness. Furthermore, some of the austerity measures imposed on weaker economies have actually increased debt-to-GDP ratios and needless to say significantly reduced economic activity. Weak sovereigns and an under-funded banking system are likely to result in periodic jolts to the world economy with the added risk of contagion, as European countries have failed to put in an effective fire-wall despite having three whole years to deal with the situation. Fortunately, global growth was supported by the developing world, (in particular, China) whilst the US continued to grow albeit at a slow pace.

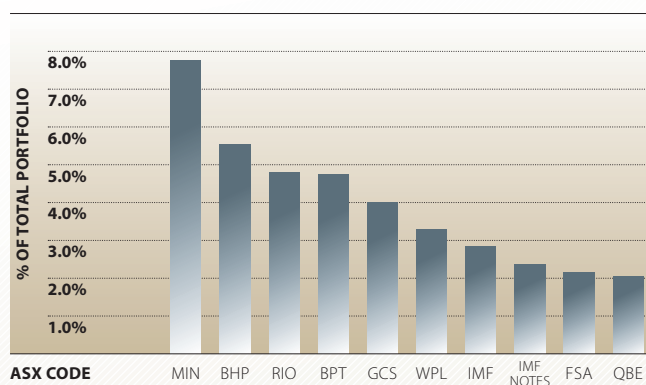
Although Australia is better placed than most developed economies, corporate profitability has been weak because of a strong Australian dollar; relatively high interest rates (for most of the year); lower productivity; floods in parts of the eastern states; higher essential services charges; increased bureaucracy; and uncertainty in regard to the introduction of two new taxes. Companies in virtually every sector from retail to manufacturing to finance, have reported challenging operating conditions. Although the mining, energy and mining services sectors performed relatively well for much of the year, even these sectors slowed as commodity prices decreased; projects were delayed; operating costs surged; and uncertainty prevailed in regard to the MRRT and carbon tax.

More positively, the Manager is starting to see some 'green shoots' in certain sectors of the global economy that should enhance productivity and drive growth in the medium to longer term (see Outlook section below).

As a result of the global uncertainty, the Manager has maintained relatively high levels of cash throughout the year and actually increased the Fund's cash balance to circa 30% of the value of the portfolio as at 30 June 2012.

The Top 10 holdings of the Fund are shown in the graph below. The Manager has focused on increasing the number of 'high conviction' stocks over the past 12 months and these include Mineral Resources, Beach Energy, Global Construction Services, IMF and FSA. The Manager believes that these stocks are undervalued; have excellent medium to long term growth; strong balance sheets; are well managed; and have the potential to deliver 'game-changing' results. The remaining stocks in the Top 10 holdings tend to have larger market capitalisations, strong cash flows and solid balance sheets, which the Manager believes (based on the respective entry prices), offer good prospects for delivering total shareholder returns above the market. The portfolio is sector agnostic and benefited from its underweight position in Consumer Discretionary and Media.

### Top 10 Current Holdings



The Manager has slightly pared back its overweight bias towards the resource sector and, despite the current slowdown, believes Chinese (and other developing countries') economic growth will continue to be driven by ongoing urbanisation and industrialisation. The Manager has held this view since the Fund's inception in 2005 and believes this exposure will provide investors with superior returns over time.

### Outlook

The global economy continues to grow at a slow pace as governments, businesses and consumers continue to de-leverage their respective balance sheets. Bank borrowing costs and credit standards have increased causing credit growth to slow. This combined with an ageing population has led to more investment conservatism and as a result, 10 year bond yields in many countries (considered to be 'safe' investments), are at record low levels.

The Manager does not expect this situation to change significantly in the near term although there will be periods when government spending programs, even lower interest rates and quantitative easing, will boost demand. Hence the Manager sees a period of low to modest growth with periodic changes from 'risk-on' to 'risk-off'.

Fortunately (and depending on future policy outcomes), developing countries such as China and the other 'BRIC' nations are likely to underpin global growth at a reasonable level, which should continue to benefit Australia as a supplier of raw materials, soft commodities and energy.

The Manager continues to seek potential game-changing opportunities that are likely to result in high levels of profitable growth and deliver excess returns to shareholders. Examples include the development of unconventional oil and gas, which has the potential to lower energy costs in many countries and encourage investment (through added competitiveness) in downstream industries. Other examples include the exponential growth in on-line communications and the convergence of Telecommunications, IT and Media, which although still in its infancy, is accelerating and will continue to be a catalyst for material changes to many business models. The ageing population is also emerging as an increasingly important investment thematic.

Although the Manager currently has a cautious view of the Australian equity market, it believes that there are (and will continue to be) value-enhancing investment opportunities given the very reasonable cross-section of company valuations. It also believes that through careful stock-picking, it is possible to continue to find and invest in good companies and sectors that will outperform the broader market. The Manager will however, only invest valuable shareholder funds when it considers the risk/return equation to be favourable.

### Corporate

During the 2012 financial year the company bought back 1,157,265 KAT shares under the share buyback. This reduced the number of shares on issue from 39,540,856 shares to 38,383,591 shares as at 30 June 2012. The average buyback price was 69.0164 cents. As well as providing liquidity to exiting shareholders, the buyback has increased the underlying net asset backing for all existing and remaining shareholders.

For the 2011/12 financial year Katana Capital Ltd paid dividends totalling 1.75 cents fully franked. The Manager was disappointed with the level of dividends paid throughout the 2012FY, but recognises that there is only so much that can be done during a period where the overall market declined in excess of 11%. However, it is the clear and strong preference of the Manager and the Board to pay dividends on a quarterly basis where possible.

Although Listed Investment Companies can trade at a discount to their NTA - particularly when times are challenging - it is worth highlighting some of the benefits of Listed Investment Companies. These include:

- the potential to pass on franking credits
- liquidity and ease of transacting
- the benefit of being a 'closed-ended fund' - ie that long term performance is not hindered by the Manager being a forced seller of equities to facilitate redemptions during periods of panic and hence depressed prices.

Whilst it has been a difficult year, the Manager is cognisant of the Fund's long term track record and has continued to add to their own holdings in the Company. In total the Manager and its affiliates acquired approximately 300,000 additional shares in Katana Capital Limited during the year. With the total shareholding held by the Manager and its affiliates now in excess of 4.88m shares, there is a clear and growing alignment with the interests of shareholders.

### Brad Shallard Romano Sala Tenna

Investment Managers  
Katana Asset Management Limited

# directors' report

Your directors present their report with respect to results of Katana Capital Limited (the "Company" or "Katana Capital") and its controlled entities (the "Group") for the year ended 30 June 2012 and the state of affairs for 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 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 he 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 currently works with one of Australia's leading full service stockbroking firms in Corporate Advisory and Institutional Sales.

Prior to this Mr Sala Tenna was the Head of Institutional Sales with one of Australia's leading hedge fund managers with over \$5.5 billion in funds under management.

Mr Sala Tenna has worked in the Finance Industry for over 15 years in various fields including credit, financial advising, business development, corporate advisory and equity sell side / buy side.

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** *B.Bus, GAICD, CA*

Mr Chiappini is a member of the Australian Institute of Company Directors and Institute of Chartered Accountants and 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 2012, and the numbers of meetings attended by each director were:

	MEETINGS OF COMMITTEES			
	Directors' meetings		Audit and Compliance	
	A	B	A	B
Dalton Gooding	6	6	2	2
Peter Wallace	6	6	2	2
Giuliano Sala Tenna	6	6	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 the 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 2012
Dalton Gooding	100,000
Peter Wallace	300,000
Giuliano Sala Tenna	100,000

There are no options outstanding as at 30 June 2012.

## (Loss)/earnings per share

	30 June 2012 Cents	30 June 2011 Cents
<b>(a) Basic (loss)/earnings per share</b>		
(Loss)/earnings from continuing operations attributable to the ordinary equity holders of the company	<b>(13.26)</b>	9.78

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 39,295,127 (2011: 40,278,811). There are no dilutive securities on issue as at 30 June 2012.

## 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 2012:

	30 June 2012 \$	30 June 2011 \$
Final ordinary dividend for the year ended 30 June 2011 of 1.25 cents (2010 - 1.25 cents) per fully paid share paid on 30 September 2011	<b>494,264</b>	505,700
Interim ordinary dividend for the year ended 30 June 2012 of 0.5 cents (2011- 1.00 cents) per fully paid share paid 7 December 2011	<b>197,706</b>	404,560
Interim ordinary dividend for the year ended 30 June 2012 of Nil cents (2011-1.00 cents) per fully paid share paid 28 February 2011	-	401,382
Interim ordinary dividend for the year ended 30 June 2012 of Nil cents (2011-1.00 cents) per fully paid share paid 4 May 2011	-	397,752
	<b>691,970</b>	1,709,394

## 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 2012, the Group did not have any full time employees (2011: 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.

Conditions were particularly challenging during the year with the European crisis headlining the macro focus. This in turn dominated market sentiment and often over-rode company specific investment fundamentals.

Whilst disappointed with the most recent year's performance, the Manager believes that the portfolio is in particularly good shape in terms of underlying balance sheet strength, earnings, dividend metrics and quality of management within portfolio stocks held.

### Operating results for the year

The loss before tax for the year was \$5,597,484 (2011: \$5,163,198 profit before tax) and loss after tax for the year was \$5,209,056 (2011: \$3,940,477 profit after tax).

Operating costs for the year were kept to a minimum, with administration costs (exclusive of Fund Manager's fees) coming in at 2.03% of funds under management (2011: 1.81%)

### Investments for future performance

The Fund Manager sees a period of low to modest growth with periodic changes from 'risk-on' to 'risk-off'.

Fortunately (and depending on future policy outcomes), developing countries such as China and the other 'BRIC' nations are likely to underpin global growth at a reasonable level, which should continue to benefit Australia as a supplier of raw materials, soft commodities and energy.

The Fund Manager continues to seek potential game-changing opportunities that are likely to result in high levels of profitable growth and deliver excess returns to shareholders. Examples include the development of unconventional oil and gas, which has the potential to lower energy costs in many countries and encourage investment (through added competitiveness) in downstream industries. Other examples include the growth in on-line communications and the convergence of Telecommunications, IT and Media, which although still in its infancy, is accelerating and will continue to be a catalyst for material changes to many business models. The ageing population is also emerging as an increasingly important investment thematic.

Although the Fund Manager currently has a cautious view of the Australian equity market, it believes that there are (and will continue to be) value-enhancing investment opportunities given the very reasonable cross-section of company valuations. It also believes that through careful stock-picking, it is possible to continue to find and invest in good companies and sectors that will outperform the broader market. The Manager will however, only invest valuable shareholder funds when it considers the risk/return equation to be favourable.

### 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 \$5,437,266 (2011: \$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 2013 are expected to remain neutral and will be subject to the Group taking 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 re-activating 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**

The directors are not aware of any matter or circumstance that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (i) the Group's operations in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the Group's state of affairs in future financial years.

## **Likely developments and expected results**

Although Australia is better placed than most developed economies, corporate profitability has been weak because of a strong Australian dollar; relatively high interest rates (for most of the year); lower productivity; floods in parts of the eastern states; higher essential services charges; increased bureaucracy; and uncertainty in regard to the introduction of two new taxes. We expect this weakness to flow through to FY13.

Companies in virtually every sector from retail to manufacturing to finance, have reported challenging operating conditions. Although the mining, energy and mining services sectors performed relatively well for much of the year, even these sectors slowed as commodity prices decreased; projects were delayed; operating costs surged; and uncertainty prevailed in regard to the MRRT and carbon tax.

More positively, the Fund Manager is starting to see some 'green shoots' in certain sectors of the global economy that should enhance productivity and drive growth in the medium to longer term.

As a result of the global uncertainty, the Manager has maintained relatively high levels of cash throughout the year and actually increased the Fund's cash balance to circa 30% of the value of the portfolio we expect this relatively high cash position to continue into FY13.

## **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 2012.

### **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 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 Limited'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 2012 is detailed in page 10 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:

- (a) the Fund Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;
- (b) the Fund Manager's AFSL is suspended or cancelled at any time for any reason;
- (c) 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;
- (d) the Fund Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
- (e) a receiver or receiver and manager is appointed to the whole or part of the undertaking of the Fund Manager;
- (f) a change in control of the Fund Manager occurs without the Fund Manager obtaining at least 30 days prior written consent from the Company;
- (g) 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;
- (h) 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;
- (i) 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
- (j) 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 2012 was \$490,506 (30 June 2011: \$1,325,709) as follows:

### (i) 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 2012 was \$458,695 (2011: \$526,598). The directors and shareholders of Katana Asset Management Ltd are also shareholders in Katana Capital Limited.

### (ii) 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 did not qualify to receive a performance fee for the financial year ended 30 June 2012 (2011: \$799,111). However, an additional \$31,811 was paid during FY12 as part of the final performance fee for the year ended 30 June 2011.

## Company performance

The profit/(loss) after tax for the group from 2008 is as follows:

	2012	2011	2010	2009	2008
Profit/(loss) after tax expense	<b>(\$5,209,056)</b>	\$3,940,477	\$5,308,691	(\$7,711,901)	(\$2,766,949)
Earnings/(Loss) per share - cents	<b>(13.26)</b>	9.78	12.89	(18.53)	(6.64)
Share Price 30 June	<b>\$0.60</b>	\$0.84	\$0.66	\$0.53	\$0.96

## Remuneration of directors and key management personnel of the Company and the Group

2012 Name	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total	% of remuneration which is performance based
	Salary and fees	Other <sup>1</sup>	Cash STI	Super-annuation	Termination benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>								
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	-
<b>Total non-executive directors</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>14,130</b>	<b>-</b>	<b>-</b>	<b>164,130</b>	<b>-</b>
<b>Company Secretary</b>								
Gabriel Chiappini	39,000	-	-	-	-	-	39,000	-
<b>Key Management Personnel (KMP)</b>								
Katana Asset Management Ltd	490,506	-	-	-	-	-	490,506	100
<b>Total non-executive directors, officers &amp; KMP</b>	<b>679,506</b>	<b>-</b>	<b>-</b>	<b>14,130</b>	<b>-</b>	<b>-</b>	<b>693,636</b>	<b>-</b>

<sup>1</sup> insurance premiums have not been included in other remuneration.

2011 Name	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total	% of remuneration which is performance based
	Salary and fees	Other <sup>1</sup>	Cash STI	Super-annuation	Termination benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>								
Dalton Leslie Gooding	70,000	-	-	6,930	-	-	76,930	-
Peter Wallace	40,000	-	-	3,600	-	-	43,600	-
Giuliano Sala Tena	40,000	-	-	3,600	-	-	43,600	-
<b>Total non-executive directors</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>14,130</b>	<b>-</b>	<b>-</b>	<b>164,130</b>	<b>-</b>
<b>Company Secretary</b>								
Gabriel Chiappini	39,000	-	-	-	-	-	39,000	-
<b>Key Management Personnel (KMP)</b>								
Katana Asset Management Ltd	1,325,709	-	-	-	-	-	1,325,709	100
<b>Total non-executive directors, officers &amp; KMP</b>	<b>1,514,709</b>	<b>-</b>	<b>-</b>	<b>14,130</b>	<b>-</b>	<b>-</b>	<b>1,528,839</b>	<b>-</b>

<sup>1</sup> insurance premiums have not been included in other remuneration.

END OF REMUNERATION REPORT (audited)

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### **Indemnification of directors and officers**

The total amount of insurance contract premiums paid was \$33,100 (2011: \$36,741). This amount has not been included in Directors and Executives remuneration.

### **Auditor independence**

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

Perth, Western Australia

27 September 2012



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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 2012, 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.

A handwritten signature in black ink that reads "Ernst &amp; Young".

Ernst & Young

A handwritten signature in black ink that reads "Peter McIver".

Peter McIver  
Partner  
Perth  
27 September 2012

Liability limited by a scheme approved  
under Professional Standards Legislation

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# financial statements

For the year ended 30 June 2012



**KATANA**  
CAPITAL LTD

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
		30 June 2012	30 June 2011
		\$	\$
	Notes		
<b>Revenue</b>			
Dividends		1,194,120	1,237,135
Interest		369,837	394,406
		<b>1,563,957</b>	1,631,541
Investment (loss)/income	3	<b>(6,000,277)</b>	5,604,804
<b>Expenses</b>			
Fund manager's fees	13 (a)	<b>(458,695)</b>	(526,598)
Legal and professional		<b>(90,270)</b>	(91,383)
Directors' fees and expenses		<b>(170,500)</b>	(170,500)
Administration		<b>(409,888)</b>	(485,555)
Performance fees	13 (a)	<b>(31,811)</b>	(799,111)
<b>Total expenses</b>		<b>(1,161,164)</b>	(2,073,147)
<b>(Loss)/profit before income tax</b>		<b>(5,597,484)</b>	5,163,198
Income tax benefit/(expense)	4	<b>388,428</b>	(1,222,721)
(Loss)/profit from continuing operations after income tax		<b>(5,209,056)</b>	3,940,477
<b>Net (loss)/profit for the year attributable to members of Katana Capital Limited</b>		<b>(5,209,056)</b>	3,940,477
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income for the year attributable to the members of Katana Capital Limited</b>		<b>(5,209,056)</b>	3,940,477
		<b>Cents</b>	Cents
<b>(Loss)/ earnings per share attributable to the ordinary equity holders of the company:</b>			
Basic and diluted (loss)/ earnings per share	18	<b>(13.26)</b>	9.78

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



# Consolidated balance sheet

AS AT 30 JUNE 2012

		AT CONSOLIDATED	
		30 June 2012	30 June 2011
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	9,540,653	5,594,058
Trade and other receivables	6	317,404	846,409
Investments - held for trading	7	23,468,740	34,695,404
Other assets		25,859	52,576
<b>Total current assets</b>		<b>33,352,656</b>	41,188,447
<b>Total assets</b>		<b>33,352,656</b>	41,188,447
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	599,674	1,347,352
Dividends payable		3,316	3,316
<b>Total current liabilities</b>		<b>602,990</b>	1,350,668
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	-	388,428
<b>Total liabilities</b>		<b>602,990</b>	1,739,096
<b>Net assets</b>		<b>32,749,666</b>	39,449,393
<b>EQUITY</b>			
Issued capital	11	37,833,877	38,632,578
Option premium reserve	12(a)	101,100	101,100
(Accumulated losses)/ retained earnings	12(b)	(5,185,311)	715,715
<b>Total equity</b>		<b>32,749,666</b>	39,449,393

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 2012

CONSOLIDATED

	Notes	Issued capital \$	Option premium reserve \$	Retained earnings \$	Total \$
<b>Balance at 1 July 2010</b>		<b>39,526,993</b>	<b>101,100</b>	<b>(1,515,368)</b>	<b>38,112,725</b>
Profit for the year		-	-	3,940,477	3,940,477
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>3,940,477</b>	<b>3,940,477</b>
Buy-back of shares	11	(894,415)	-	-	(894,415)
Dividends provided for or paid	21	-	-	(1,709,394)	(1,709,394)
<b>Balance at 30 June 2011</b>		<b>38,632,578</b>	<b>101,100</b>	<b>715,715</b>	<b>39,449,393</b>
<b>Balance at 1 July 2011</b>		<b>38,632,578</b>	<b>101,100</b>	<b>715,715</b>	<b>39,449,393</b>
Profit/(loss) for the year		-	-	(5,209,056)	(5,209,056)
Other comprehensive income		-	-	-	-
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>(5,209,056)</b>	<b>(5,209,056)</b>
Buy-back of shares	11	(798,701)	-	-	(798,701)
Dividends provided for or paid	21	-	-	(691,970)	(691,970)
<b>Balance at 30 June 2012</b>		<b>37,833,877</b>	<b>101,100</b>	<b>(5,185,311)</b>	<b>32,749,666</b>

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

# Consolidated statement of cash flow

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
		30 June 2012	30 June 2011
		\$	\$
	Notes		
<b>Cash flows from operating activities</b>			
Proceeds on sale of financial assets		<b>53,331,314</b>	60,317,302
Payments for purchases of financial assets		<b>(47,482,352)</b>	(59,891,098)
Payments to suppliers and employees		<b>(2,030,098)</b>	(1,363,595)
Interest received		<b>377,443</b>	373,012
Dividends received		<b>1,193,370</b>	1,233,485
Other revenue		<b>21,097</b>	5,338
Tax received/(paid)		<b>26,492</b>	34,763
<b>Net inflow from operating activities</b>	15	<b>5,437,266</b>	709,207
<b>Cash flows from financing activities</b>			
Dividends paid		<b>(691,970)</b>	(1,709,394)
Payments for shares bought back		<b>(798,701)</b>	(894,415)
<b>Net cash outflow from financing activities</b>		<b>(1,490,671)</b>	(2,603,809)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the financial year		<b>5,594,058</b>	7,488,660
<b>Cash and cash equivalents at end of year</b>	5	<b>9,540,653</b>	5,594,058

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

# Notes to the financial statements

30 JUNE 2012

## 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 2012 was authorised for issue in accordance with a resolution of the directors on 27 September 2012.

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 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 AASB 124 Related Party Transactions. 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 2012. 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 2012 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.

### (d) Investments and other financial assets

Financial assets are classified as either financial assets held for trading (financial assets at fair value through profit or loss), 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.

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## 2 Summary of significant accounting policies (continued)

### (d) Investments and other financial assets (continued)

#### (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.

### (f) Income tax

The income tax expense or revenue for the year is tax payable on the current year'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 between the carrying amount and tax losses to the extent that 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 controlled entities 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.

# Notes to the financial statements *(CONTINUED)*

30 JUNE 2012

## 2 Summary of significant accounting policies (continued)

### **(f) Income tax (continued)**

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 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 Statement of cash flow, 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.

### **(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.

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## 2 Summary of significant accounting policies (continued)

### (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.

### (p) Share based payments

#### *Equity settled transactions*

The Company 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.

# Notes to the financial statements (CONTINUED)

30 JUNE 2012

## 2 Summary of significant accounting policies (continued)

### (p) Share based payments (continued)

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.

### (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.

## 3 Investment income

	YEAR ENDED CONSOLIDATED	
	30 June 2012	30 June 2011
	\$	\$
Realised (losses)/gains on investments held for trading	(1,138,867)	4,101,913
Unrealised (losses)/gains on investments held for trading	(4,882,507)	1,497,553
Other revenue	21,097	5,338
	<b>(6,000,277)</b>	5,604,804

## 4 Income tax expense

### (a) Income tax (benefit)/expense

	YEAR ENDED CONSOLIDATED	
	30 June 2012	30 June 2011
	\$	\$
Current tax (benefit)/expense	-	
Deferred tax	(388,428)	1,222,761
	<b>(388,428)</b>	1,222,761
Deferred income tax (benefit)/expense included in income tax expense comprises:		
Increase in deferred tax asset (Note 8)	145,910	1,314,175
(Increase)/decrease in deferred tax liability (Note 10)	(534,338)	(91,414)
	<b>(388,428)</b>	1,222,761



## 4 Income tax expense (continued)

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

	YEAR ENDED CONSOLIDATED	
	30 June 2012 \$	30 June 2011 \$
Profit from continuing operations before income tax expense	<b>(5,597,484)</b>	5,163,198
Tax at the Australian tax rate of 30% (2011 - 30%)	<b>(1,679,295)</b>	1,548,959
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	<b>3,847</b>	369
Franking credits	<b>128,491</b>	139,958
Franking rebate	<b>(428,302)</b>	(466,525)
Deferred tax asset not recognised	<b>1,587,739</b>	-
Non Assessable Income	<b>(908)</b>	-
Income Tax Expense/(Benefit)	<b>(388,428)</b>	1,222,761

## 5 Current assets - Cash and cash equivalents

	AT CONSOLIDATED	
	30 June 2012 \$	30 June 2011 \$
Cash at bank	<b>6,556,591</b>	2,599,562
Short term bank bills	<b>2,984,062</b>	2,994,496
	<b>9,540,653</b>	5,594,058

## 6 Current assets - Trade and other current receivables

	AT CONSOLIDATED	
	30 June 2012 \$	30 June 2011 \$
Unsettled trades - listed equities	<b>244,827</b>	766,976
Interest receivable	<b>18,627</b>	26,233
Dividend receivable	<b>53,950</b>	53,200
	<b>317,404</b>	846,409

There are no receivable 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 2012 \$	30 June 2011 \$
Equity securities - classified as held at fair value through profit or loss	<b>22,593,271</b>	33,799,196
Convertible notes	<b>774,000</b>	896,208
Australian Unlisted Trusts	<b>101,469</b>	-
	<b>23,468,740</b>	34,695,404

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 16h.

# Notes to the financial statements (CONTINUED)

30 JUNE 2012

## 8 Non-current assets - Deferred tax assets

	AT CONSOLIDATED	
	<b>30 June 2012</b>	30 June 2011
	\$	\$
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	<b>1,805,854</b>	180,803
<i>Other</i>		
Provisions	<b>54,455</b>	311,884
Other	<b>74,585</b>	377
Deferred tax assets not recognised	<b>(1,587,740)</b>	-
Total deferred tax assets	<b>347,154</b>	493,064
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 10)	<b>(347,154)</b>	(493,064)
Net deferred tax assets	-	-

The deferred tax asset is not recognised as an asset at this time due to the company's view that the timing of utilising the tax asset is uncertain and will occur only as global stock exchanges correct themselves, global economic activity increases and the company realises profits.

## 9 Current liabilities - Trade and other payables

	AT CONSOLIDATED	
	<b>30 June 2012</b>	30 June 2011
	\$	\$
Unsettled trades - listed equities	<b>413,901</b>	292,302
Accrual - Katana Asset management fee	<b>111,366</b>	133,994
Trade creditors	<b>33,606</b>	43,405
Performance fee payable	-	799,111
Employee PAYG tax instalments	<b>5,992</b>	5,280
Custody fees payable	<b>34,809</b>	73,260
	<b>599,674</b>	1,347,352

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	
	<b>30 June 2012</b>	30 June 2011
	\$	\$
<b>The balance comprises temporary differences attributable to:</b>		
<i>Deferred tax liabilities</i>		
Investments	<b>322,689</b>	848,699
Dividends receivable	<b>16,185</b>	15,960
Other	<b>8,280</b>	16,833
Total Deferred tax liabilities	<b>347,154</b>	881,492
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 10)	<b>(347,154)</b>	(493,064)
Net deferred tax liabilities	-	388,428

## 11 Issued capital

	AT CONSOLIDATED ENTITY		AT CONSOLIDATED ENTITY	
	<b>30 June 2012</b>	30 June 2011	<b>30 June 2012</b>	30 June 2011
	<b>Shares</b>	Shares	<b>\$</b>	\$
Ordinary shares fully paid	<b>38,383,700</b>	39,540,965	<b>37,833,877</b>	38,632,578

### (a) Movements in ordinary share capital:

Date	Details	Number of shares	\$
<b>1 July 2010</b>	<b>Opening balance</b>	40,703,119	39,526,993
	Buy-back of shares	(1,162,154)	(894,415)
<b>30 June 2011</b>	<b>Balance</b>	39,540,965	38,632,578
<b>1 July 2011</b>	<b>Opening balance</b>	39,540,965	38,632,578
	Buy-back of shares	(1,157,265)	(798,701)
<b>30 June 2012</b>	<b>Balance</b>	38,383,700	37,833,877

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

During the period from 1 July 2011 to 30 June 2012, 1,157,265 shares were bought back on market and were subsequently cancelled. At 30 June 2012, 191,797 shares remained to be cancelled and have been disclosed as a cancellation in the above note. The cancellation occurred on 30 July 2012. The shares were acquired at an average price of \$0.69 with the price ranging from \$0.61 to \$0.81 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 \$33,352,656 at 30 June 2012 (30 June 2011: \$41,188,447), 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)

### (a) Reserves

	AT CONSOLIDATED	
	<b>30 June 2012</b>	30 June 2011
	<b>\$</b>	\$
Option premium reserve	<b>101,100</b>	101,100
	<b>101,100</b>	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 profits/(accumulated losses) were as follows:

	AT CONSOLIDATED	
	<b>30 June 2012</b>	30 June 2011
	<b>\$</b>	\$
Balance 1 July	<b>715,715</b>	(1,515,368)
Net profit after tax attributable to members of the Company	<b>(5,209,056)</b>	3,940,477
Dividends	<b>(691,970)</b>	(1,709,394)
Balance 30 June	<b>(5,185,311)</b>	715,715

# Notes to the financial statements (CONTINUED)

30 JUNE 2012

## 13 Key management personnel disclosures

### (a) Key management personnel compensation

	YEAR ENDED CONSOLIDATED	
	30 June 2012 \$	30 June 2011 \$
Short-term employee benefits	150,000	150,000
Post-employment benefits	14,130	14,130
Management fee to Fund Manager	458,695	526,598
Performance fee to Fund Manager <sup>(1)</sup>	31,811	799,111
	<b>654,636</b>	<b>1,489,839</b>

(1) \$ 31,811 was paid during FY12 as part of the final performance fee for the year ended 30 June 2011.

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Option holdings

There were no options held by the directors or key management personnel during the financial year (2011: Nil)

#### (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 than those the Group would have adopted if dealing at arm's length.

2012 Name	Balance at the start of the year	Received during the year in the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Katana Capital Limited</b>				
<i>Ordinary shares</i>				
Dalton Leslie Gooding	100,000	-	-	100,000
Peter Wallace	300,000	-	-	300,000
Giuliano Sala Tenna	100,000	-	-	100,000
<b>Other key management personnel of the Company</b>				
<i>Ordinary shares</i>				
Brad Shallard	2,186,609	-	151,024	2,337,632
Romano Sala Tenna	2,393,918	-	154,695	2,548,612
Katana Asset Management Ltd	-	-	-	-

2011 Name	Balance at the start of the year	Received during the year in the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Katana Capital Limited</b>				
<i>Ordinary shares</i>				
Dalton Leslie Gooding	100,000	-	-	100,000
Peter Wallace	300,000	-	-	300,000
Giuliano Sala Tenna	100,000	-	-	100,000
<b>Other key management personnel of the Company</b>				
<i>Ordinary shares</i>				
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	-	-	-	-

### (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 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 \$30,166 (2011: \$33,664) for tax services provided.

All related party transactions are made at arms length 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 cash inflow from operating activities

	YEAR ENDED CONSOLIDATED	
	30 June 2012	30 June 2011
	\$	\$
Profit/(loss) for the year	<b>(5,209,056)</b>	3,940,477
(Gains)/losses recognised on measurement to fair value of investments	<b>4,882,507</b>	(1,497,553)
(Increase)/decrease in financial assets held for trading	<b>6,344,199</b>	(2,522,444)
(Increase)/decrease in trade and other receivables	<b>555,722</b>	(584,254)
(Increase)/decrease in deferred tax assets	-	834,334
(Increase)/decrease in trade and other payables	<b>(747,678)</b>	150,219
(Decrease)/increase in deferred tax liabilities	<b>(388,428)</b>	388,428
<b>Net cash inflow/(outflow) from operating activities</b>	<b>5,437,266</b>	709,207

## 16 Financial risk management

The Group's 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's 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.

# Notes to the financial statements *(CONTINUED)*

30 JUNE 2012

## 16 Financial risk management (continued)

### (a) 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:
  - (i) listed securities;
  - (ii) rights to subscribe for or convert to listed securities (whether or not such rights are tradable on a securities exchange);
  - (iii) any securities which the Fund Manager reasonably expects will be quoted on the ASX within a 24 month period from the date of investment;
  - (iv) listed securities for the purpose of short selling;
  - (v) warrants or options to purchase any investment and warrants or options to sell any investment;
  - (vi) 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;
  - (vii) deposits with any bank or corporation declared to be an authorised dealer in the short term money market;
  - (viii) 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, any Australian government authority, or a corporation of at least an investment grade credit rating granted by a recognised credit rating agency in Australia;
  - (ix) units or other interest in cash management trusts;
  - (x) underwriting or sub-underwriting of securities as and where permitted by relevant laws and regulations and the Fund Manager's AFSL; and
  - (xi) 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% 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 pre stock basis as set out in the table below unless the prior approval of the Board is received to do otherwise.

### (b) 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 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 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 of 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%

## 16 Financial risk management (continued)

### (c) 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 (e.g. comparative investment merit).

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

### (d) Market risk

Market risk is the risk that changes in foreign exchange rates, interest rates and prices will affect the Company income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on 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. The paragraph below sets out how this component of price risk is managed and measured.

Investments are classified in the balance sheet 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 price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

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 between 0 and 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 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 30 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 2012. The analysis is based on the assumptions that the index increased/decreased by 10% (2011 - 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 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 derivative financial instruments to mitigate the risk of future interest rate changes.

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

	WEIGHTED AVERAGE INTEREST	YEAR ENDED CONSOLIDATED	
	Rate (% p.a.)	30 June 2012	30 June 2011
<b>Financial Assets</b>			
Cash and short term deposits - floating	4.15%	9,540,653	5,594,058

# Notes to the financial statements *(CONTINUED)*

30 JUNE 2012

## 16 Financial risk management (continued)

### (e) 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 (2011: +/- 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 operating profit and other comprehensive income to interest rate risk and other 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, historical correlation of the Company 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 invest. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	PRICE RISK			
	-10%	+10%	-10%	+10%
	Impact on Operating Profit		Impact on Other Comprehensive Income	
<b>30 June 2012</b>	<b>(2,346,881)</b>	<b>2,346,881</b>	-	-
30 June 2011	(3,469,540)	3,469,540	-	-

	INTEREST RATE RISK			
	-50bps	+50bps	-50bps	+50bps
	Impact on Operating Profit		Impact on Other Comprehensive Income	
<b>30 June 2012</b>	<b>(44,171)</b>	<b>44,171</b>	-	-
30 June 2011	(47,498)	47,498	-	-

### (f) 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 2012 the Company does not hold any debt securities (30 June 2011: Nil).

The Company does trade in Exchange Traded Options. The Investment Manager has established limits such that, at any time 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 2012 the Company did not hold any Exchange Traded Options (30 June 2011: Nil).

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.

### (g) 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 2012 (30 June 2011: Nil).

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



## 16 Financial risk management (continued)

### (h) 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).
- (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 2012.

<b>Group - as at 30 June 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>				
Financial Assets held for trading:				
- Equity securities	<b>22,326,339</b>	-	<b>266,932</b>	<b>22,593,271</b>
- Convertible notes	<b>774,000</b>	-	-	<b>774,000</b>
- Unlisted Unit Trust	-	<b>101,469</b>	-	<b>101,469</b>
<b>Total assets</b>	<b>23,100,339</b>	<b>101,469</b>	<b>266,932</b>	<b>23,468,740</b>

<b>Group - as at 30 June 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>				
Financial Assets held at fair value through profit and loss				
- Equity securities	33,532,264	-	266,932	33,799,196
- Convertible notes	896,208	-	-	896,208
<b>Total assets</b>	<b>34,428,472</b>	-	<b>266,932</b>	<b>34,695,404</b>

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 2012:

<b>Group</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
Opening balance	<b>266,932</b>	266,932
Other increases	-	-
Gains recognised in other comprehensive income	-	-
Loss recognised in profit or loss	-	-
<b>Closing balance</b>	<b>266,932</b>	266,932
Total gains for the period included in profit or loss that relate to assets held at the end of the reporting period	-	-

# Notes to the financial statements (CONTINUED)

30 JUNE 2012

## 17 Segment reporting

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 2012	30 June 2011
Cents	Cents
(13.26)	9.78

(Loss)/Profit per share from continuing operations attributable to the ordinary equity holders of the company

There are no dilutive securities on issue as at 30 June 2012 (30 June 2011: Nil)

### (b) Reconciliation of earnings used in calculating earnings per share

YEAR ENDED CONSOLIDATED	
30 June 2012	30 June 2011
\$	\$
(5,209,056)	3,644,443
(5,209,056)	3,644,443

#### Basic (loss)/earnings per share

Profit from continuing operations

(Loss)/Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share

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

YEAR ENDED CONSOLIDATED	
30 June 2012	30 June 2011
Number	Number
39,295,127	40,278,811
-	-
39,295,127	40,278,811

#### Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share

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

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 2012 (30 June 2011: Nil).

## 19 Events occurring after reporting date

The Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operation 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 2012 \$	30 June 2011 \$
<b>(a) Audit services</b>		
<i>Ernst &amp; Young Australia</i>		
Audit and review of financial reports	52,000	49,000
<b>Total remuneration for audit and other assurance services</b>	<b>52,000</b>	49,000
<b>(b) Non-audit services</b>		
Other services	-	-
<b>Total remuneration for other assurance services</b>	<b>-</b>	-
<b>Total auditors' remuneration</b>	<b>52,000</b>	49,000

## 21 Dividends

	YEAR ENDED PARENT ENTITY	
	30 June 2012 \$	30 June 2011 \$
Final ordinary dividend for the year ended 30 June 2011 of 1.25 cents (2010 - 1.25 cents) per fully paid share paid on 30 September 2011	494,264	505,700
Interim ordinary dividend for the year ended 30 June 2012 of 0.5 cents (2011- 1.00 cents) per fully paid share paid 7 December 2011	197,706	404,560
Interim ordinary dividend for the year ended 30 June 2012 of Nil cents (2011-1.00 cents) per fully paid share paid 28 February 2011	-	401,382
Interim ordinary dividend for the year ended 30 June 2012 of Nil cents (2011-1.00 cents) per fully paid share paid 4 May 2011	-	397,752
<b>Total dividends paid and payable</b>	<b>691,970</b>	1,709,394

	YEAR ENDED CONSOLIDATED	
	30 June 2012 \$	30 June 2011 \$
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	391,476	264,732

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

- franking credits that will arise from the payment of the amount of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- 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.

# Notes to the financial statements (CONTINUED)

30 JUNE 2012

## 22 Parent entity financial information

	PARENT ENTITY AS AT	
	2012 \$	2011 \$
<b>Balance sheet</b>		
Current assets	<b>33,352,656</b>	41,188,567
Non-current assets	-	-
Total assets	<b>33,352,656</b>	41,188,567
Current liabilities	<b>602,990</b>	1,378,318
Non-current liabilities	-	656,811
Total liabilities	<b>602,990</b>	2,035,129
<b>Shareholders' equity</b>		
Contributed equity	<b>37,833,877</b>	38,632,578
Option premium reserve	<b>101,100</b>	101,100
Accumulated loss	<b>(5,185,311)</b>	419,760
	<b>32,749,666</b>	39,153,438
<b>Profit or loss for the year</b>	<b>(5,209,056)</b>	3,644,443
<b>Total comprehensive income</b>	<b>(5,209,056)</b>	3,644,443

### 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 differences 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 have 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 outstanding contingent liabilities or commitments as at 30 June 2012 (30 June 2011: Nil).

# Directors' declaration

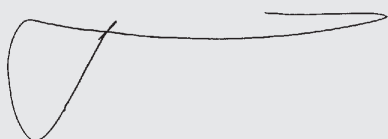
30 JUNE 2012

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 34 are in accordance with the *Corporations Act 2001*, including
  - (i) Giving a true and fair view of the financial position as at 30 June 2012 and of its performance for the year ended on that date of the consolidated entity.
  - (ii) Complying with *Australian Accounting Standards* (including the *Australian Accounting Interpretations*) and the *Corporations Regulations 2011*;
- (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 2011* for the financial year ending 30 June 2012.

On behalf of the Board

Katana Capital Limited



**Dalton Gooding**  
Chairman

27 September 2012

Perth, Western Australia

# Independent auditor's report to the members

30 JUNE 2012



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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 balance sheet as at 30 June 2012, 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(b), 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.

Liability limited by a scheme approved  
under Professional Standards Legislation

### Auditor's Opinion

In our opinion:

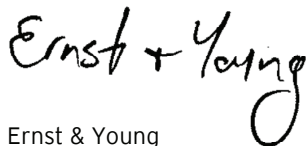
- a. the financial report of Katana Capital Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

### 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 2012. 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.

### Auditor's Opinion

In our opinion, the Remuneration Report of Katana Capital Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Peter Mclver  
Partner  
Perth  
27 September 2012

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# Corporate governance statement

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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 balanced 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.katanaasset.com](http://www.katanaasset.com)



Principle	Corporate Governance best practice recommendation	Compliance	How we comply
<b>1</b>	<b>Lay solid foundations for management and oversight</b>		
<b>1.1</b>	Establish and disclose the functions reserved to the Board and those delegated to senior executives	✓	<p>The Board has a Corporate Governance Statement which outlines the role and duties of the Board.</p> <p>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:</p> <ul style="list-style-type: none"> <li>(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:</li> <li>(b) ensuring the Company is properly managed by: <ul style="list-style-type: none"> <li>(iii) setting and communicating clear objectives;</li> <li>(iv) appointing and removing the Managing Director of the Company;</li> <li>(v) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer and the Company secretary;</li> <li>(vi) input into and final approval of management's development of corporate strategy and performance objectives;</li> <li>(vii) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;</li> <li>(viii) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;</li> </ul> </li> <li>(i) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;</li> <li>(j) approval of the annual budget;</li> <li>(k) monitoring the financial performance of the Company;</li> <li>(l) approving and monitoring financial and other reporting;</li> <li>(m) 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;</li> <li>(n) liaising with the Company's external auditors either directly or via the Audit Committee as appropriate; and</li> <li>(o) 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.</li> </ul> <p>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.</p> <p>Matters which are not covered by the delegations require Board approval.</p> <p>The Corporate Governance Statement is available on the Company's website in the Corporate Governance section.</p>
<b>1.2</b>	Disclose the process for evaluating the performance of senior executives	✓	<p>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.</p>
<b>1.3</b>	Companies should provide the information indicated in the Guide to reporting on Principle 1.		<p>Refer 1.2, performance of the Fund Manager is reviewed by the board in accordance with the Fund Manager's Mandate.</p>

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
<b>2</b>	<b>Structure of the Board to add value</b>		
<b>2.1</b>	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 of 3 of its directors classified as independent directors.
<b>2.2</b>	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.
<b>2.3</b>	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.
<b>2.4</b>	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.
<b>2.5</b>	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.
<b>2.6</b>	The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.		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>3</b>	<b>Promote ethical and responsible decision making</b>		
<b>3.1</b>	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:
	(a) the practices necessary to maintain confidence in the Company's integrity;	✓	<ul style="list-style-type: none"> <li>Respect the law and act in accordance with it;</li> <li>Respect confidentiality and not misuse company information, assets or resources;</li> </ul>
	(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;	✓	<ul style="list-style-type: none"> <li>Avoid real or perceived conflicts of interest;</li> <li>Act in the best interest of stakeholders; and</li> </ul>
	(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;	✓	<ul style="list-style-type: none"> <li>Perform their duties in ways that minimise environmental impacts and maximise workplace safety.</li> </ul> <p>Directors and employees are expected to comply with all Company policies and to act professionally with integrity, honesty and responsibility at all times.</p>

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
<b>3.2</b>	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.	✓	The Board has adopted a policy concerning diversity and has disclosed the policy on its website.
<b>3.3</b>	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.	✗	Katana encourages diversity in its workforces and to that end has adopted an equal opportunity and anti-discrimination policy which seeks to provide equal employment opportunities to all employees regardless of race, gender, religion, age, nationality or any other grounds while providing a workplace where everyone is treated equally and fairly and where discrimination, harassment and inequality are not tolerated. Further the Group does not positively discriminate in favour of any group of people and positions of employment are based on technical ability, qualifications and experience. Therefore although the company supports the recommendations contained in the ASX <i>Corporate Governance Principles and Recommendation</i> , it does not follow the recommendations requiring the company to establish measurable objectives for achieving gender diversity as this contradicts our position of not discriminating in favour of any group of people. While not setting specific targets for achieving gender diversity, Katana does not discriminate in favour of or against the appointment of women at any level in the organisation, nor does it discriminate based on gender in setting salary levels, training and development or in other advancement opportunities. This will always be based on technical abilities and qualifications with no consideration to gender.
<b>3.4</b>	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	✓	The company does not have any employees either male or female.  It does not have any female board members.
<b>3.5</b>	Provide related disclosures: <ul style="list-style-type: none"> <li>An explanation of any departure from Recommendation 3</li> <li>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</li> </ul>	✓	Explanation of departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) in its future annual reports.  The Corporate Governance Policies which includes the Diversity Policy and Corporate Code of Conduct is posted on the Company's website.
<b>4</b>	<b>Safeguard integrity in financial reporting</b>		
<b>4.1</b>	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.
<b>4.2</b>	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	✓	
<b>4.3</b>	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.
<b>4.4</b>	The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.:	✓	As at the date of this statement, the Company is of the view that it has complied with each of the recommendations under Principle 4 and any future departure (if any) from Recommendation 4 above will be disclosed.

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
<b>5</b>	<b>Make timely and balance disclosure</b>		
<b>5.1</b>	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.	✓	<p>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.</p> <p>The disclosure obligations include:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>5.2</b>	In accordance with the 'Guide to Reporting on Principle 5', the Company has made its Continuous Disclosure and Compliance Policy available on its website.	✓	The Continuous Disclosure Policy can be found on the company's website.
<b>6</b>	<b>Respect the rights of shareholders</b>		
<b>6.1</b>	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	<p>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:</p> <ul style="list-style-type: none"> <li>Announcements lodged with ASX;</li> <li>Half Yearly Report</li> <li>Monthly Net Tangible Asset Backing ASX disclosure;</li> <li>Presentations at the Annual General Meeting;</li> <li>Annual Report</li> <li>Promote effective communication with shareholders; and</li> <li>Encourage shareholder participation at AGMs.</li> </ul>
<b>6.2</b>	Companies should provide the information indicated in the Guide to reporting on Principle 6.		The Company's Information Disclosure Policy is available on the Company's website in the Investor Centre section.
<b>7</b>	<b>Recognise and manage risk</b>		
<b>7.1</b>	The Company should establish policies on risk oversight and management.	✓	<p>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.</p> <p>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.</p> <p>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.</p> <p>The annual report details material financial and investment risks which arose during the reporting period (see notes to financial statements).</p>

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
<b>7.2</b>	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.
<b>7.3</b>	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.
<b>7.4</b>	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓	The company will provide explanation of any departures (if any) from best practice recommendations in its future annual reports. The information is disclosed in the annual report
<b>8</b>	<b>Remunerate fairly and responsibly</b>		
<b>8.1</b>	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
<b>8.2</b>	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• Consists of a majority of independent directors</li> <li>• Is chaired by the independent chair</li> <li>• Has at least 3 members</li> </ul>	✗	Remuneration Committee has not been established as the company does not have any executives or employees
<b>8.3</b>	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives	✓	Refer Director's Report
<b>8.4</b>	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓	In accordance with the 'Guide to Reporting on Principle 8', the Company provides the following information: <ul style="list-style-type: none"> <li>(a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors;</li> <li>(b) as at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 8, except for Recommendation 8.1 and 8.2. An explanation for the departure from Recommendation 8.1 and 8.2 are set out above.</li> </ul>

# Additional ASX Information

## Ordinary Fully Paid Shares (Total)

As of 30 Sep 2012

### Range of Shares Snapshot

				Composition : ORD	
Range	Total holders	Shares	% of Issued Capital		
1 - 1,000	26	6,491	0.02		
1,001 - 5,000	29	104,732	0.28		
5,001 - 10,000	61	522,751	1.38		
10,001 - 100,000	224	9,168,134	24.16		
100,001 - 9,999,999,999	65	28,138,922	74.16		
<b>Rounding</b>			<b>0.00</b>		
<b>Total</b>	<b>405</b>	<b>37,941,030</b>	<b>100.00</b>		

### Unmarketable Parcels

	Minimum Parcel Size	Holders	Shares
Minimum \$ 500.00 parcel at \$ 0.60 per unit	834	25	5491

## Top 20 Shareholders

As at 5 October 2012

### Top Holders Snapshot - Ungrouped

Rank	Name	Shares	% of Shares
1.	HOPERIDGE ENTERPRISES PTY LTD <JONES FAMILY A/C>	2,616,883	6.90
2.	WONDER HOLDINGS PTY LTD	2,518,139	6.64
3.	MR STEPHEN JAMES LAMBERT + MRS RUTH LYNETTE LAMBERT + MR SIMON LEE LAMBERT <LAMBERT RETIREMENT A/C>	1,733,562	4.57
4.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	1,708,913	4.50
5.	CLASSIC CAPITAL PTY LTD <BRL UNIT A/C>	1,189,122	3.13
6.	VERNON CHARLES WHEATLEY + JOYCELYN EDITH WHEATLEY <PULO RD SUPER FUND A/C>	1,070,577	2.82
7.	MR ROMANO SALA TENNA + MRS LINDA SALA TENNA <THE SALA TENNA SUPER A/C>	900,674	2.37
8.	TAXA JUNO NOMINEES PTY LTD <RONALD JAMES FAMILY A/C>	830,000	2.19
9.	BS CAPITAL PTY LTD <THE SHALLARD FAMILY A/C>	792,217	2.09
10.	MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL <THE SHALLARD SUPER FUND A/C>	762,923	2.01
11.	UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA) <UCIF A/C>	565,043	1.49
12.	MRS LINDA SALA TENNA	541,389	1.43
13.	CAMBO INVESTMENTS PTY LTD	523,376	1.38
14.	MR LAWRENCE HENRY DA SILVA	523,376	1.38
15.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <NEXT CUSTODIAN A/C>	506,840	1.34
16.	KEFIR PTY LTD <SNOWBALL SUPER FUND A/C>	500,000	1.32
17.	METHUEN HOLDINGS PTY LTD <THE PB FAMILY A/C>	500,000	1.32
18.	COLLORI PTY LTD <ELLSEE INVESTMENT A/C>	400,000	1.05
19.	S & M O'REILLY PTY LTD <BONA VISTA A/C>	400,000	1.05
20.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	400,000	1.05
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)</b>		<b>18,983,034</b>	<b>50.03</b>
<b>Total Remaining Holders Balance</b>		<b>18,957,996</b>	<b>49.97</b>





**KATANA**  
CAPITAL LTD