2010 ANNUAL REPORT

KATANA CAPITAL LTD

KATANA CAPITAL WILL COMBINE ITS LISTED INVESTMENT COMPANY STRUCTURE WITH THE PROVEN ABILITY OF ITS MANAGER ("KATANA ASSET MANAGEMENT LTD") TO PROVIDE INVESTORS WITH ACCESS TO COMPREHENSIVE INVESTMENT TECHNIQUES AIMED AT PROVIDING STRONG CAPITAL AND INCOME RETURNS.

THE COMPANY AND THE MANAGER SHARE SIMILAR INVESTMENT PHILOSOPHIES. THE ROLE OF THE COMPANY IS TO ASSESS AND MONITOR THE MANAGER AND LIAISE WITH THE MANAGER WITH RESPECT TO ITS MANDATE AS DETAILED IN THE MANAGEMENT AGREEMENT. IN ADDITION, THE COMPANY WILL SEEK TO IDENTIFY APPROPRIATE INVESTMENT OPPORTUNITIES FOR REVIEW BY THE MANAGER.

OUR INVESTMENT PHILOSOPHY

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

Whilst the Manager intends to combine the best principles of value investing, fundamental and technical analysis, it does not wish to be constrained by the constructs of any one approach. The key to the long-term success of the Company is seen as the capacity of the Manager to integrate the best principles of each discipline with the extensive and varied experiences of the Manager.

This is achieved by encouraging flexibility and adaptability, but within the confines of an overall framework that controls risk.

CORPORATE DIRECTORY

Katana Capital Limited

ABN 56 116 054 301

Directors

Dalton Gooding
Peter Wallace
Giuliano Sala Tenna

Company Secretary

Gabriel Chiappini

Registered Office

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

Telephone (08) 9326 7623
Facsimile (08) 9326 7676

www.katanacapital.com.au

Share Registry

Computershare Investor Services Pty Ltd
Level 2 45 St George's Terrace,
Perth WA 6000

Telephone (08) 9323 2000
Facsimile (08) 9323 2033

Auditor

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

ASX Code: KAT

Dear Shareholder

Following on from the Global Financial Crisis in 2008/2009, the Financial Year ended 30 June 2010 (FY10) saw a stabilisation in global credit markets and equity markets. Pleasingly this coincided with your company returning to profitability, posting an after tax net profit of $5.308m.

Against this backdrop, our Fund Manager positioned our portfolio to take advantage of improvements in the global and domestic investment environment and during FY10 out-performed the All Ordinaries Index. In percentage terms and before General and Administrative expenses, the portfolio generated a return of 24.54% compared to the All Ordinaries Index return of 9.55%.

This result continues your Company's notable trend since listing on the ASX in December 2005 of out-performing the All Ordinaries Index.

As noted, the Company reported a FY10 after tax net profit of $5.308m and with current cash reserves of approximately $8.9m or 30% of the value of the portfolio, we believe the Fund Manager has placed your Company in a robust position to move with and take advantage of the expected volatility in global and domestic markets.

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

Following FY10 the Company, via its ASX Net Tangible Asset (NTA) announcements to the end of September 2010, has posted an increase in NTA from $0.94 to $1.02.

The Company continues to have complete confidence in the Fund Manager concerning the ongoing management of the investment portfolio. On behalf of your board we would also like to take this opportunity to thank the Fund Manager for Outstanding performance since listing on the ASX. As a measure of the Fund Manager's belief in the Company's direction and willingness to add value to shareholders, the Fund Manager has ***forgone their right under the Investment Mandate to receive $789,965 in Performance Fees in FY10***.

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

Yours sincerely

Dalton Gooding
Chairman

INVESTMENT REPORT

30 JUNE 2010

KATANA ASSET MANAGEMENT LTD AS MANAGER ('MANAGER') FOR KATANA CAPITAL LIMITED ('COMPANY') IS PLEASED TO ATTACH A REPORT ON THE PERFORMANCE OF THE COMPANY'S PORTFOLIO FOR THE 12 MONTHS TO JUNE 30TH 2010.

PERFORMANCE SUMMARY

The 2010 financial year heralded a welcome return to profitability, and the Manager was delighted with the performance of the fund throughout this period. In percentage terms, the portfolio yielded a gross investment return of 24.54% before operating expenses and tax. The Company's stated benchmark – the All Ordinaries index – returned 9.55% over the same period. This is a significant relative out performance of 157%.

Katana Capital Ltd listed in December 2005. Since listing, the Manager has outperformed the All Ordinaries index during each and every financial year. During this 5-year period, the Manager has produced an average gross investment return of 10.71% pa versus 0.07% pa for the All Ordinaries index. This is an excellent achievement, yielding an average out performance of 72%per annum.

Year Ending	Katana Gross Investment Return	All Ords Index	Out Performance
2006	9.95%	6.90%	44.20%
2007	49.03%	25.36%	93.34%
2008	-6.41%	-15.49%	58.62%
2009	-23.57%	-25.97%	9.24%
2010	**24.54%**	**9.55%**	**156.96%**
Average	10.71%	0.07%	72.47%

2010 FINANCIAL YEAR REVIEW

The All Ordinaries index entered the 2010 FY at 3,948 and rallied solidly from that level – particularly during the first quarter of the new financial year. During April 2010, the index tested the 5,000 level, before retreating to close the month at 4,833. This was still a sizeable increase of 22% from the beginning of the financial year, and came on the back of the 30%+ rally already experienced from the March 2009 low.

It was relatively clear at the time that the market had rallied too far too fast, and that the local and international stimulus packages were generating an artificial level of demand and indeed perceived demand. In one swift stroke, investor sentiment had moved from oblivion to perfection: stocks were suddenly priced for perfection and earnings forecasts were overly optimistic and in many instances clearly unattainable.

During May and June 2010, a number of concerns came to the fore, as sentiment increasingly turned negative.

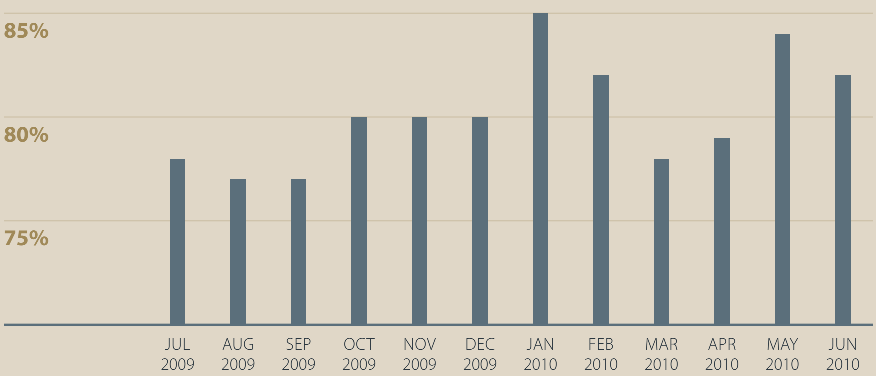
First and foremost, there was a growing realisation that the situation throughout much of Europe was substantially worse than previously believed, and indeed on most levels substantially worse than the United States. Greece stepped up to the edge of the sovereign debt default abyss, as the more robust nations frantically calculated whether it would be cheaper to rescue Greece (and if necessary Spain, Ireland, Portugal et al) or rescue their respective banking systems in the event that Greece was left to default. In the end the cards were always going to land in Greece's favour. However it was not before investors around the globe were given a clear insight into the precarious and unsustainable imbalances that have mushroomed throughout much of Europe under the umbrella of a common currency.

By comparison, problems with the other two major global economies were much more sedate and much less newsworthy! However, there was nonetheless an occasional procession of articles and commentaries highlighting the dangers to growth in China and the lack of sustainability with the recovery in the US. More recently, the latter theme has emerged as the major area of concern.

The resulting impact was that the market retreated 10.5% over these two months. Fortunately, the Fund was able to continue its outperformance during this period due to its above average weighting in cash and cash equivalents.

As at the close of the 2010 financial year, cash reserves totalled approximately 20% of the value of the portfolio.

% of Portfolio Invested



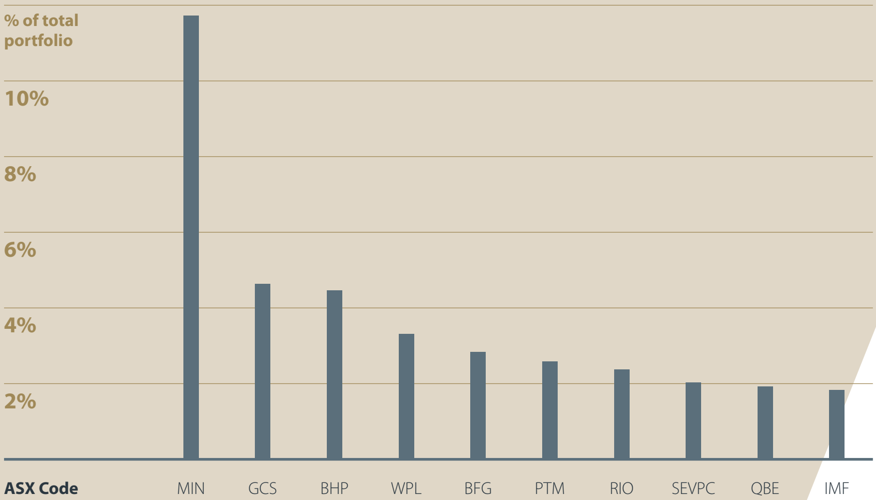
As at the end of the financial year there were 72 companies in the portfolio. This diversification continued to assist the Manager to reduce the overall risk to the portfolio. Over the 2011 financial year however, the Manager is looking to reduce the number of stocks in the portfolio to closer to 60.

The Fund's single largest position remains a substantially overweight holding in Mineral Resources Limited (MIN). MIN has grown to almost 12% of the portfolio, predominantly through its continued out-performance. The Manager has resisted the temptation to reduce this holding, due to the very high level of confidence in both the MIN management and the company's future growth potential.

Indeed, according to the Manager's analysis, during the 2011 financial year, we are likely to witness MIN's highest growth in earnings to date – both in absolute and relative terms.

The Manager's continuing bias towards the resource sector contributed to the Fund's out performance over the All Ordinaries index. The Manager believes that the resource sector and the resourceservicing sector will continue to provide investors with superior returns. Long term Chinese economic growth continues to be driven by the ongoing urbanisation and industrialisation of the rural population. This stance is demonstrated by the Manager's weightings in not only BHP Billiton Limited, but also Woodside Petroleum Limited, GCS Limited and RIO Tinto Limited.

Top 10 Current Holdings



OUTLOOK

It seems a lifetime ago for some investors, but the Investment Managers at Katana remember well the 16th of September 2008. It was a Tuesday, and it was the day that the world almost lost its banking system.

Of course that was all predicated by the collapse of Lehman Brothers – the 4th largest financial institution in the US, with assets under control of $US600bn. As a result of this near death experience, every major central/reserve bank, government and pseudo government agency took unprecedented steps to resuscitate the global financial system. And to their credit, the dramatic stimulus injections, purchases of toxic assets and rapid lowering of interest rates, were able to rescue the financial system in the face of enormous headwinds.

If we fast-forward nearly two years, we find ourselves in a situation with a number of worrying characteristics:

- Firstly, the strong fiscal measures taken to resuscitate our economies have largely run their course and are drawing to a close
- The effects are starting to wear off, yet the underlying intrinsic demand has not sufficiently recovered
- Due to substantially higher levels of sovereign debt, there is limited capacity to safely extend or increase these measures.

Sovereign debt levels have rapidly spiralled out of control, with Government debt to GDP approaching 80% in Germany and France, 90% in the US and in excess of 190% in Japan. Further measures of debt to GDP are even more concerning, with one measure of total debt to GDP in the US sitting at almost 370%. In short we are experiencing the potential for sovereign defaults in Europe, the realistic threat of a double dip recession in the US, and the oversupply of housing in China.

Against this backdrop, it would be easy to be overly negative. However there are some strong counterbalancing arguments:

- Global interest rates are at record low levels:
    a. This significantly reduces the cost of doing business for almost every company in existence: lower expense = higher profits
    b. By reducing the cost of capital, low interest rates also reduce the investment threshold for new projects, and over the medium term will stimulate greater business activity, ceteris paribus
- We are witnessing the industrialisation of the two most populous nations in existence; this is likely to be a multi-generational event that will stimulate global activity for decades to come.
- Corporations, superannuation funds and private investors alike are sitting on substantial cash reserves.
- After taking into account tax and inflation, the real rate of return on most bonds and cash products, is negative or close to. This is not a natural place for funds to reside.
- The debt markets – whilst still some way from 'normal' – have thawed, and financing is available for robust ventures.
- Much negativity has now been priced into equity valuations, meaning the risk-return equation is now more favourable.
- The normal capital-replacement cycle – which has existed since the invention of the steam engine – is running its course, and drawing us all closer to the next round of capital expenditure.

So where does that leave us? In short, whilst the Manager acknowledges the potential for a 'substantial, cataclysmic' style event, it believes that the more likely outcome is that the Australian market (at least) will find itself oscillating between these two strong themes.

Accordingly, in the foreseeable future the Manager will look to:

- Add to equity holdings by progressively reducing cash towards approximately 10% in line with any move towards the 4,000 level.
- Progressively increase the cash weighting closer to 30%+ in line with any move towards the 5,000 level.

As a final note on the macro outlook, the Manager continues to believe that Australia's proximity to the emerging powerhouse economies of Asia (including India), combined with our relatively low debt profile and advanced business practices, place us as one of the very best places to invest for the foreseeable future.

The Manager's investment themes still include energy, (via thermal coal, liquefied natural gas, uranium and oil), funds management businesses, and industrial stocks that have strong cash flows, pricing power and robust business models.

CORPORATE

The performance of the Katana Fund has been quite exceptional under rather challenging conditions. However the Manager and Board alike have been actively looking for ways to reduce the gap between the underlying net tangible asset (NTA) backing and the price at which the shares trade.

To achieve this, the Fund undertook a more aggressive share buyback during the 2010FY, and will continue to do so. Currently, stock is being repurchased almost daily and cancelled – much of it at a substantial discount to the NTA. Over time, this will serve to both improve the liquidity and exit price for those looking to sell, as well as increase the underlying value for all new and remaining shareholders.

On the 29th of July, the Fund also announced that it would move towards paying dividends on a quarterly basis. It is hoped that this will increase the attractiveness of the shares to income-focussed investors. Additionally, this will increase the frequency with which the company will buyback shares on market to satisfy shareholders who have registered under the dividend reinvestment program (DRP).

It is also worth noting that In June of this year legislation was passed removing the profits test and introducing the liquidity test as the criteria that a company must meet in order to pay a dividend. In essence this means that bouts of stock market weakness will no longer preclude the Company's ability to pay a dividend. During the GFC the old legislation curtailed Katana from paying a dividend even though the company had surplus cash holdings. This change – coupled with the quarterly dividend schedule – should help provide a steady income stream to shareholders.

On a different and final note, the Manager is delighted to be able to make an announcement in respect of the Performance Bonus for the 2010FY. By way of background, in the normal course of events, 85% of the performance bonus is paid to the investment managers, and 15% to the staff in order to attract and retain the very best people. It is with much pride however that the Manager is able to inform all shareholders that the Investment Manager's have voluntarily chosen to forgo their performance bonus owed for substantially out-performing the market index. This amounts to a saving and benefit of in excess of $800,000 for all shareholders.

Brad Shallard
Romano Sala Tenna

Investment Managers
Katana Asset Management Limited

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT WITH RESPECT TO THE RESULTS OF KATANA CAPITAL LIMITED (THE "COMPANY" OR "KATANA CAPITAL") FOR THE YEAR ENDED 30 JUNE 2010 AND THE STATE OF AFFAIRS OF THE COMPANY AT THAT DATE.

DIRECTORS

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

Information on Directors

Dalton Leslie Gooding BBus, FCA.
(NonExecutive Chairman)

Mr Gooding was appointed to the Board on 11 November 2005. Mr Gooding, formerly a longstanding 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 three years Mr Gooding has also served as a director of the following other listed companies:

- AWH Corporation Limited
  – appointed 29 November 2002
- 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.
(NonExecutive Director)

Mr Wallace was appointed to the Board on 19 September 2005. Mr Wallace has had 42 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:

- Evans and Tate Limited – appointed 13 October 2005, resigned 22 August 2007
- Paladio Group Limited – appointed 25 October 2005, resigned 23 April 2009
- RuralAus Investments Limited – appointed 12 July 2007, resigned 20 November 2009

Giuliano Sala Tenna BCom, FFIN, GAICD. (NonExecutive Director)

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

Mr Sala Tenna has worked in the Finance Industry for over 13 years in various fields and is currently on the Institutional Equity Desk at Bell Potter Securities, one of Australia's largest full service stockbroking firms.

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

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

COMPANY SECRETARY

Gabriel Chiappini BBus, GAICD, CA

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

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Meetings of committees (i)			
	Directors' meetings		Audit and Compliance	
	A	B	A	B
Dalton Leslie Gooding	5	5	2	2
Peter Wallace	5	5	2	2
Giuliano Sala Tenna	5	5	2	2

A = Number of meetings attended

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

Committee membership

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

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

Peter Wallace (Chairman of Committee)

Dalton Gooding

Giuliano Sala Tenna

(i) During the financial year, the Audit and Risk Management Committee was merged with the Compliance Committee.

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 were:

	Number of ordinary shares	Number of options over ordinary shares	Number of options vested during the year 2010	Number of options vested during the year 2009
Directors of Katana Capital Limited				
Dalton Leslie Gooding	100,000			
Peter Wallace	300,000			
Giuliano Sala Tenna	100,000			

No options were exercised during the year.

There are no options outstanding as at 30 June 2010.

DIRECTORS' REPORT

EARNINGS PER SHARE

	Notes	30 June 2010 Cents	30 June 2009 Cents
(a) Basic earnings/(Loss) per share			
Earnings/ (loss) from continuing operations attributable to the ordinary equity holders of the company		**12.89**	(18.53)

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 41,177,638 (2009: 41,620,466).

There are no dilutive securities on issue as at 30 June 2010.

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 2009:

	Notes	30 June 2010 $	30 June 2009 $
Final ordinary dividend for the year ended 30 June 2009 of 0.005 cents (2008 1.0 cents) per fully paid share paid on 20 November 2008		**207,472**	416,848
Interim ordinary dividend for the year ended 30 June 2010 of 1.5 cents (2009 nil cents) per fully paid share		**614,024**	-
		821,496	416,848

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 principle activity of the Company is that of an Investment Company with an 'all opportunities' investment strategy.

Employees

As at 30 June 2010 the Company did not have any full time employees.

OPERATING AND FINANCIAL REVIEW

Company overview

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

The 2010 financial year heralded a welcome return to profitability and the Fund Manager was delighted with the performance of Katana throughout this period. In percentage terms, the portfolio yielded a gross investment return of 24.54% before operating expenses and tax. The Company's stated benchmark the All Ordinaries index – returned 9.55% over the same period. This is a significant relative out performance of 14.99%.

Operating results for the year

The profit before tax for the year was $7,158,111 (2009: $11,481,608 loss) and profit after tax for the year was $5,308,691 (2009: $7,711,901 loss).

Operating costs for the year were kept to a minimum, with administration costs (exclusive of Fund Manager's fee) coming in at 1.93% of funds under management (2009: 2.05%).

Investments for future performance

The Fund Manager will look to:

- Add to equity holdings by progressively reducing cash towards approximately 10% in line with any move towards the 4,000 level.
- Progressively increase the cash weighting closer to 30%+ in line with any move towards the 5,000 level.

On the macro outlook, the Fund Manager continues to believe that Australia's proximity to the emerging powerhouse economies of Asia (including India), combined with our relatively low debt profile and advanced business practices, place us as one of the very best places to invest for the foreseeable future.

The Fund Manager's investment themes still include energy, (via thermal coal, liquefied natural gas, uranium and oil), funds management businesses, and industrial stocks that have strong cash flows, pricing power and robust business models.

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 $1,790,914 during the year which reflects the Company's investment from the Australian equities market.

Net cash flows for the financial year ending 30 June 2011 are expected to increase subject to the Company continuing to take advantage of opportunities within the Australian equities market and the general performance of the market.

Liquidity and funding

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

Risk management

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

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

SIGNIFICANT CHANGES AFTER BALANCE DATE

A final fully franked dividend of 1.25 cents for the 30 June 2010 financial year was declared on 31 August 2010 by the Company.

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

There are several prevailing macro themes currently influencing global markets and economies, most of these themes are as result of the 2008 Global Financial Crisis (GFC). As a result of the GFC, every major central/reserve bank, government and government agency took unprecedented steps to resuscitate the global financial system. And to their credit, the dramatic stimulus injections, purchases of toxic assets and rapid lowering of interest rates, were able to rescue the financial system in the face of enormous headwinds.

Now nearly two years along, we find ourselves in a situation with a number of disquieting characteristics:

- Firstly, the strong fiscal measures taken to resuscitate our economies have largely run their course and are drawing to a close
- The effects are starting to wear off, yet the underlying intrinsic demand has not sufficiently recovered
- Due to substantially higher levels of sovereign debt, there is limited capacity to safely extend or increase these measures.

Sovereign debt levels have increased rapidly, with Government debt to GDP approaching 80% in Germany and France, 90% in the US and in excess of 190% in Japan. Further measures of debt to GDP are even more concerning, with one measure of total debt to GDP in the US sitting at almost 370%. In short we are experiencing the potential for sovereign defaults in Europe, the realistic threat of a double dip recession in the US, and the oversupply of housing in China.

Against this backdrop, it would be easy to be overly negative, however there are some strong counterbalancing arguments:

- Global interest rates are at record low levels
- This significantly reduces the cost of doing business for almost every company in existence with lower expenses resulting in higher profits
- By reducing the cost of capital, low interest rates also reduce the investment threshold for new projects, and over the medium term will stimulate greater business activity, ceteris paribus
- We are witnessing the industrialisation of the two most populous nations in existence; this is likely to be a multigenerational event that will stimulate global activity for decades to come.
- Corporations, superannuation funds and private investors alike are sitting on substantial cash reserves.
- After taking into account tax and inflation, the real rate of return on most bonds and cash products, is negative or close to. This is not a natural place for funds to reside.
- The debt markets – whilst still some way from 'normal' – have thawed, and financing is available for robust ventures.
- Much negativity has now been priced into equity valuations, meaning the risk/return equation is now more favourable.
- The normal capital replacement cycle – which has existed since the invention of the steam engine – is running its course, and drawing us all closer to the next round of capital expenditure.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The principle activities of the Company are not subject to any significant environmental regulations.

SHARE OPTIONS

Unissued shares

There were no options outstanding as at 30 June 2010

Shares issued on the exercise of options

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

Options granted as remuneration

There were no options granted as remuneration.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company 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 Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) and includes the four executives in the Company and group receiving the highest remuneration.

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

(a) Details of Key Management Personnel

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

(i) *Chairman nonexecutive*
Dalton Leslie Gooding

(ii) *Nonexecutive 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 Company 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 Company depends upon the quality of its directors. To prosper, the Company must attract, motivate and retain skilled nonexecutive directors.

The remuneration policy of the Directors is not linked to company performance. However, Katana Asset Management Ltd's performance fees and management fees are linked directly to the performance of the Company.

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

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

Remuneration structure

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

(i) Nonexecutive director remuneration

Objective

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

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of nonexecutive 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 nonexecutive directors of comparable companies when undertaking the annual review process.

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

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

The remuneration of nonexecutive directors for the year ended 30 June 2010 is detailed in Table 1 of this report.

(ii) Senior manager and executive director remuneration

As previously noted the Company at present does not employ any executive directors or senior management. If the Company chooses in the future to employ executive directors the Company will review the remuneration packages.

Employment contracts

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

(iii) Compensation of other Key Management Personnel

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

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

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

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

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

(1) the Shareholders of the Company approve such renewal by ordinary resolution

(2) the Fund Manager is not in breach of the Management Agreement; and

(3) the Fund Manager has not in the reasonable opinion of the Board materially breached the Management Agreement during the Initial Term.

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

(1) at any time during the term:

   (a) the Company fails to make payment of the remuneration in accordance with the Management Agreement and the failure continues for 21 days from the delivery of a written notice by the Fund Manager to the Company requesting payment;

   (b) the Company enters into liquidation (except voluntary liquidation for the purpose of reconstruction);

   (c) the Company is guilty of any gross default, breach, non observance or non performance of any of the terms and conditions contained in the Management Agreement; or

   (d) a receiver or receiver and manager is appointed to the whole or part of the undertakings of the Company; and

(2) such notice is given not less than two years after the commencement of the Initial Term.

The Company may immediately terminate the Management Agreement if:

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

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

(3) the Fund Manager commits a fundamental default or breach of its obligations under the Management Agreement or is in breach of any conditions of its AFSL and such default or breach is not remedied within 30 days after the Company has notified the Fund Manager in writing to remedy that default or breach;

(4) the Fund Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);

(5) a receiver or receiver and manager is appointed to the whole or part of the undertaking of the Fund manager;

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

(7) the Fund Manager is guilty of any gross default, breach, non observance or non performance of any of the terms and conditions contained in the Management Agreement;

(8) the Fund Manager fails to remedy a breach of the Management Agreement within the time period reasonably specified in a notice from the Company requiring it to do so;

(9) the Fund Manager persistently fails to ensure that investments made on behalf of the Company are consistent with the investment strategy applicable to the Company at the time the relevant investment is made; or

(10) the Fund Manager is not lawfully able to continue to provide services to the Company pursuant to the terms of the Management Agreement.

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

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

Management and performance fees

(1) Management fee

The Fund Manager receives a monthly management fee equal to 0.104167% of the Portfolio value calculated at the end of each month. The fee for 2010 was $497,511 (2009: $395,395). The Directors and shareholders of Katana Asset Management Ltd are also shareholders in Katana Capital Limited.

(2) Performance fee

Performance fee to be paid in respect of each performance calculation period of 18.5% of the amount by which the Fund Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June). The Fund Manager qualified to receive a performance fee for Financial year ended 30 June 2010 but chose to forgo 85% of the performance fee and accrued 15% of the total fee payable for the Fund Manager's analyst. The fee accrued for 2010 was $139,500 (2009: $nil).

DIRECTORS' REPORT

Company performance

The profit/(loss) after tax for the group from the date of incorporation (19 September 2005) is as follows:

	$ 2010	$ 2009	$ 2008	$ 2007	$ 19/09/05 to 30/06/06
Profit/(loss) after tax expense	**5,308,691**	(7,711,901)	(2,766,949)	7,510,531	1,060,378

Remuneration of Directors and Key Management Personnel of the Company and Group

2010	Short term employee benefits			Post employment benefits	Long term benefits	Sharebased payments		
Name	**Salary and fees $**	**Other $**	**Cash STI $**	**Super annuation $**	**Termination benefits $**	**Options $**	**Total $**	**% of remuneration which is performance based %**
Nonexecutive directors								
Dalton Leslie Gooding	**70,000**	**-**	**-**	**6,930**	**-**	**-**	**76,930**	**-**
Peter Wallace	**40,000**	**-**	**-**	**3,600**	**-**	**-**	**43,600**	**-**
Giuliano Sala Tenna	**40,000**	**-**	**-**	**3,600**	**-**	**-**	**43,600**	**-**
Total nonexecutive directors	**150,000**	**-**	**-**	**14,130**	**-**	**-**	**164,130**	**-**
Company Secretary								
Gabriel Chiappini	**37,500**	**-**	**-**	**-**	**-**	**-**	**37,500**	**-**
Key Management Personnel (KMP)								
Katana Asset Management Ltd	**637,011**	**-**	**-**	**-**	**-**	**-**	**637,011**	**100%**
Total non-executive directors, officers & KMP	**824,511**	**-**	**-**	**14,130**	**-**	**-**	**838,641**	**-**

2009	Short term benefits			Post employment benefits	Long term benefits	Sharebased payments		
Name	Salary and fees $	Other $	Cash STI $	Super annuation $	Termination benefits $	Options $	Total $	% of remuneration which is performance based %
Nonexecutive directors								
Dalton Leslie Gooding	70,000	-	-	6,930	-	-	76,930	-
Peter Wallace	40,000	-	-	3,600	-	-	43,600	-
Derek La Ferla[1]	16,667	-	-	1,500	-	-	18,167	-
Giuliano Sala Tenna	40,000	-	-	3,600	-	-	43,600	-
Total nonexecutive directors	166,667	-	-	15,630	-	-	182,297	-
Company Secretary								
Gabriel Chiappini	36,000	-	-	-	-	-	36,000	-
Key Management Personnel (KMP)								
Katana Asset Management Ltd	395,395	-	-	-	-	-	395,395	100%
Total non-executive directors, officers & KMP	598,062	-	-	15,630	-	-	613,692	-

1 RESIGNED ON 28 NOVEMBER 2008

End of Remuneration Report

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The total amount of insurance contract premiums paid was $39,650 (2009: $39,600). This amount has not been included in Directors and Executives remuneration.

AUDITOR INDEPENDENCE AND NON AUDIT SERVICES

The Directors have obtained an independence declaration from the Company's auditors Ernst & Young as presented on page 14 of this Annual report.

NON AUDIT SERVICES

Ernst & Young did not receive any amounts for the provision of nonaudit services.

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

Giuliano Sala Tenna
Director

22 September 2010

Perth, Western Australia

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF KATANA CAPITAL LIMITED

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
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www.ey.com/au

In relation to our audit of the financial report of Katana Capital Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

C B Pavlovich
Partner

Perth

23 September 2010

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	CONSOLIDATED 30 June 2010 $	30 June 2009 $
Investment Income			
Investment income	3	**6,887,065**	-
Dividends		**1,135,699**	1,158,598
Interest		**375,652**	173,118
Total investment income		**8,398,416**	1,331,716
Investment income/(loss)	3	**-**	(11,801,269)
Expenses			
Fund manager's fees		**(497,511)**	(395,395)
Legal and professional		**(92,033)**	(83,029)
Directors' fees and expenses		**(170,500)**	(188,666)
Administration		**(340,761)**	(344,965)
Performance fee		**(139,500)**	-
Total expenses		**(1,240,305)**	(1,012,055)
Profit/(loss) before income tax		**7,158,111**	(11,481,608)
Income tax (expense)/benefit	4	**(1,849,461)**	3,769,707
Profit/(loss) from continuing operations		**5,308,691**	(7,711,901)
Profit/(loss)for the year attributable to members of Katana Capital Limited		**5,308,691**	(7,711,901)
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year		**5,308,691**	(7,711,901)
		Cents	Cents
Earnings/(loss) per share attributable to the ordinary equity holders of the company:			
Basic earnings/(loss) per share	19	**12.89**	(18.53)
Diluted earnings/(loss) per share	19	**12.89**	(18.53)

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

		AT CONSOLIDATED	
		2010	2009
	Notes	**$**	$
ASSETS			
Current assets			
Cash and cash equivalents	5	**7,488,660**	7,073,483
Trade and other receivables	6	**227,537**	777,191
Investments held for trading	7	**30,675,449**	24,051,056
Current tax receivables		**-**	30,567
Other assets		**87,194**	61,591
Total current assets		**38,478,840**	31,993,888
Noncurrent assets			
Deferred tax assets	8	**834,334**	2,683,755
Total assets		**39,313,174**	34,677,643
LIABILITIES			
Current liabilities			
Trade and other payables	9	**1,197,133**	440,356
Financial liabilities	10	**-**	54,200
Dividends payable		**3,316**	3,316
Total current liabilities		**1,200,449**	497,872
Net assets		**38,112,725**	34,179,771
EQUITY			
Issued capital	12	**39,526,993**	40,081,234
Option premium reserve	13	**101,100**	101,100
Accumulated loss	13(a)	**(1,515,368)**	(6,002,563)
Total equity		**38,112,725**	34,179,771

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 2010

CONSOLIDATED	Notes	Issued capital $	Option premium reserve $	Retained earnings $	Total $
Balance at 1 July 2008		**40,158,270**	**101,100**	**2,126,186**	**42,385,556**
Profit/(loss) for year		-	-	(7,711,901)	(7,711,901)
Total comprehensive income for the year		**-**	**-**	**(7,711,901)**	**(7,711,901)**
Buyback of shares	12	(77,036)	-	-	(77,036)
Dividends provided for or paid	13	-	-	(416,848)	(416,848)
Balance at 30 June 2009		**40,081,234**	**101,100**	**(6,002,563)**	**34,179,771**
Balance at 1 July 2009		**40,081,234**	**101,100**	**(6,002,563)**	**34,179,771**
Profit/(loss) for year		-	-	5,308,691	5,308,691
Total comprehensive income for the year		**-**	**-**	**5,308,691**	**5,308,691**
Buyback of shares	12	(554,241)	-	-	(554,241)
Dividends provided for or paid	13	-	-	(821,496)	(821,496)
Balance at 30 June 2010		**39,526,993**	**101,100**	**(1,515,368)**	**38,112,725**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		CONSOLIDATED	
		30 June 2010	30 June 2009
	Notes	**$**	$
Cash flows from operating activities			
Proceeds on sale of financial assets		**49,304,572**	37,762,881
Payments for purchases of financial assets		**(47,934,000)**	(36,458,449)
Payments to suppliers and employees		**(1,059,687)**	(1,048,933)
Interest received		**372,080**	171,851
Dividends received		**1,100,965**	1,238,382
Other revenue		**2,002**	24,727
Interest paid		**-**	-
Tax paid/(refund)		**4,982**	28,588
Net cash outflow (inflow) from operating activities	16	**1,790,914**	1,719,047
Cash flows from financing activities			
Proceeds from issues of shares		**-**	-
Dividends paid		**(821,496)**	(420,401)
Payments for shares bought back		**(554,241)**	(77,036)
Repayment of borrowings from subsidiary		**-**	-
Net cash inflow (outflow) from financing activities		**(1,375,737)**	(497,437)
Net increase (decrease) in cash and cash equivalents		**415,177**	1,221,610
Cash and cash equivalents at the beginning of the financial year		**7,073,483**	5,851,873
Cash and cash equivalents at end of year	5	**7,488,660**	7,073,483

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

1 Corporate information

The financial report of Katana Capital Limited ("the Company") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 22 September 2010.

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

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

The nature of the operations and principle activities are described in the Directors' Report.

2 Summary of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis except for the investments held for trading and derivative financial instruments, which have been measured at fair value.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report comprise 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 the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 7 Financial Instruments: Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 January 2009

AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 20. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 20.

2 Summary of significant accounting policies *(continued)*

(b) Statement of compliance *(continued)*

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 21.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Accounting Standards and Interpretations issued but not yet effective

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 2010. 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 2010 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 onehalf 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 deconsolidated 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, 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, reevaluates this designation at each financial year end.

(i) Financial assets held for trading

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

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

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

(ii) Loans and receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

2 Summary of significant accounting policies *(continued)*

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

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

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

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

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

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

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

(g) Cash and cash equivalents

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

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

2 Summary of significant accounting policies *(continued)*

(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.

Collectability 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) Interestbearing 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, interestbearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

(k) Goods and Services Tax (GST)

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

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

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

(l) Earnings per share

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

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 nondiscretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(m) Significant accounting judgements, estimates and assumptions

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

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

2 Summary of significant accounting policies *(continued)*

(n) Derivative financial instruments

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

Any gains or losses arising from changes in the fair value of derivatives 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.

(o) Contributed equity

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

(p) Pension benefits

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

(q) Share based payments

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

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments

at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

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

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

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

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

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

(c) The expired portion of the vesting period.

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

2 Summary of significant accounting policies *(continued)*

(q) Share based payments *(continued)*

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 is fulfilled, provided that all other conditions are satisfied.

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

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

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

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

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

(r) Parent entity financial information

The financial information for the parent entity, Katana Capital Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Katana Capital Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(s) 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.

3 Investment income/(loss)

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Realised gains/(losses) on investments held for trading	**2,040,048**	(5,110,432)
Unrealised gains/(losses) on investments held for trading	**4,777,296**	(7,131,860)
Changes in fair value of options	**67,719**	416,395
Foreign exchange gains (net)	**-**	(99)
Other income	**2,002**	24,727
	6,887,065	(11,801,269)

NOTES TO THE FINANCIAL STATEMENTS

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4 Income tax expense

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
(a) Income tax expense/(benefit)		
Current tax expense/(benefit)	**-**	-
Deferred tax	**1,849,420**	(3,769,707)
	1,849,420	(3,769,707)
Deferred income tax(benefit)/expense included in income tax expense comprises:		
(Decrease)/increase in deferred tax assets (note 8)	**1,655,799**	(2,691,772)
Decrease/(increase) in deferred tax liabilities (note 11)	**193,621**	(1,077,935)
Other	**-**	-
	1,849,420	(3,769,707)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/ (loss) from continuing operations before income tax expense	**7,157,632**	(11,481,608)
Tax at the Australian tax rate of 30% (2009 30%)	**2,147,290**	(3,444,482)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Nondeductible expenses	**291**	325
Franking credits	**127,784**	139,522
Franking rebate	**(425,945)**	(465,072)
Income tax expense	**1,849,420**	(3,769,707)

5 Current assets Cash and cash equivalents

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Bank balances	**2,523,639**	6,976,849
Deposits at call	**-**	96,634
Short term bank bills	**4,965,021**	-
	7,488,660	7,073,483

Short term bank bills have a maturity of 90 days with a market interest rate of 5.425%

6 Current assets Trade and other current receivables

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Unsettled trades listed equities	**173,148**	761,108
Interest receivable	**4,839**	1,267
Dividend receivable	**49,550**	14,816
	227,537	777,191

There are no receivables past due or impaired.

7 Current assets Investments

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Listed equities classified as held for trading	**30,675,449**	24,051,056
	30,675,449	24,051,056

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

8 Noncurrent assets Deferred tax assets

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
The balance comprises temporary differences attributable to:		
Tax losses	**1,703,532**	3,387,592
Other		
Share issue costs	**41**	35,836
Options	**-**	1,426
Provisions	**92,747**	38,119
Other	**426**	67
Investments	**10,494**	-
Total deferred tax assets	**1,807,240**	3,463,040
Setoff of deferred tax liabilities pursuant to setoff provisions (notes 11)	**(972,906)**	(779,285)
Net deferred tax assets	**834,334**	2,683,755

8 Noncurrent assets Deferred tax assets *(continued)*

Movements Consolidated	Tax losses	Share issue costs	Other	Total
	$	$	$	$
At 30 June 2008	688,319	71,630	11,317	771,266
(Charged)/credited directly to income statement	2,699,273	(35,795)	28,295	2,691,773
At 30 June 2009	3,387,592	35,835	39,612	3,463,039
At 30 June 2009	3,387,592	35,835	39,612	3,463,039
(Charged)/credited directly to income statement	(1,684,060)	(35,794)	64,055	(1,655,799)
At 30 June 2010	1,703,532	41	103,667	1,807,240

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

9 Current liabilities Trade and other payables

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Unsettled trades listed equities	**851,780**	275,638
Accrual Classic Capital management fee	**135,451**	103,468
Trade creditors	**40,063**	33,552
Performance fee payable	**139,500**	-
Employee pay as you go tax instalments	**5,280**	5,280
Custody fees payable	**25,059**	22,418
	1,197,133	440,356

10 Current liabilities Financial liabilities

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Exchange traded options held for trading at fair value*	**-**	54,200
	-	54,200

* The Company writes and then trades Exchange Traded Options (ETO's), the company's policy for managing its Risk for ETO's is to ensure it only writes ETO's against shares that it physically holds. ETO's are governed by the Australian Stock Exchange (ASX) and are traded on the ASX. The ETO's had an average expiry date of 30 July 2009.

11 Noncurrent liabilities Deferred tax liabilities

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
The balance comprises temporary differences attributable to:		
Deferred tax liabilities		
Investments	**956,589**	774,460
Dividends receivable	**14,865**	4,445
Other	**1,452**	380
Total deferred tax liabilities	**972,906**	779,285
Setoff of deferred tax liabilities pursuant to setoff provisions	**(972,906)**	(779,285)
Net deferred tax liabilities	**-**	-

Movements Consolidated	**Investments**	**Other**	**Total**
	$	**$**	**$**
At 1 July 2008	1,828,840	28,380	1,857,220
Charged/(credited) to the income statement	(1,054,380)	(23,555)	(1,077,935)
At 30 June 2009	774,460	4,825	779,285
At 30 June 2009	774,460	4,825	779,285
Charged/(credited) to the income statement	182,129	11,492	193,621
At 30 June 2010	956,589	16,317	972,906

12 Issued Capital

	AT PARENT ENTITY		AT PARENT ENTITY	
	30 June 2010	30 June 2009	**30 June 2010**	30 June 2009
	Shares	Shares	**$**	$
Ordinary shares				
Fully paid	**40,703,119**	41,414,313	**39,526,993**	40,081,234

(a) Movements in ordinary share capital:

Date	**Details**	**Number of shares**	**$**
1 July 2008	Opening balance	41,684,800	40,158,270
	Buyback of shares	(190,487)	(77,036
30 June 2009	Balance	41,494,313	40,081,234
1 July 2009	Opening balance	41,494,313	40,081,234
	Buyback of shares	(791,194)	(554,241)
30 June 2010	Balance	40,703,119	39,526,993

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

During the period from July 2009 to June 2010, 791,194 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.7005 with the price ranging from $0.60 to $0.755 per share.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

12 Issued Capital *(continued)*

(b) Movements in options:

Date	Details	30 June 2010 Number of options	30 June 2009 Number of options
1 July 2009	Opening balance	**1,000,000**	**1,000,000**
	Expired options	**(1,000,000)**	**-**
30 June 2010	Closing Balance	**-**	**1,000,000**

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

(c) 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.

13 Reserves and retained earnings

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Option premium reserve	**101,100**	101,100

(a) Retained profits/(accumulated profits)

Movements in retained earnings were as follows:

	AT CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Balance 1 July	**(6,002,563)**	2,126,186
Net profit/(loss) after tax attributable to members of the Company	**5,308,691**	(7,711,901)
Dividends	**(821,496)**	(416,848)
Balance 30 June	**(1,515,368)**	(6,002,563)

14 Key management personnel disclosures

(a) Key management personnel compensation

	YEAR ENDED CONSOLIDATED 30 June 2010 $	30 June 2009 $
Shortterm employee benefits	**150,000**	166,667
Postemployment benefits	**14,130**	15,630
Management fee to Fund Manager	**497,511**	395,395
Performance fee to Fund Manager	**139,500**	-
	801,141	577,692

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

2010

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

2009

Name	Balance at start of the year	Granted as compen-sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Katana Capital Limited							
Dalton Leslie Gooding	250,000				250,000	250,000	-
Peter Wallace	250,000				250,000	250,000	-
Guiliano Sala Tenna	250,000				250,000	250,000	-
Derek La Ferla[1]	250,000			-	250,000	250,000	-
Other key management personnel of the Company							
Brad Shallard							
Romano Sala Tenna							
Katana Asset Management Ltd	-	-	-	-	-	-	-

1 *RESIGNED 28 NOVEMBER 2008*

NOTES TO THE FINANCIAL STATEMENTS

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14 Key management personnel disclosures *(continued)*

(b) Equity instrument disclosures relating to key management personnel *(continued)*

(ii) Share holdings

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

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

2010

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

2009

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Katana Capital Limited				
Ordinary shares				
Dalton Leslie Gooding	100,000			100,000
Peter Wallace	300,000			300,000
Derek La Ferla [1]	100,000			100,000
Giuliano Sala Tenna	100,000			100,000
Other key management personnel of the Company				
Ordinary shares				
Brad Shallard	2,040,125			2,040,125
Romano Sala Tenna	2,267,870			2,267,870
Katana Asset Management Ltd	-	-	-	-

1 RESIGNED 28 NOVEMBER 2008

(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.

15 Related party transactions

(a) Directors

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

(b) Related party transactions

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

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding Partners received $21,847 (2009: $31,250) for tax services provided.

All related party transactions are made in arms length transactions on normal commercial terms and conditions.

Outstanding balances at period end are unsecured and settlement occurs in cash.

Wholly owned group transactions

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

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

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Profit/(loss) for the year	**5,308,691**	(7,711,901)
Impairment of intercompany	**-**	-
Other noncash items	**-**	-
(Gains)/losses recognised on measurement to fair value of held for trading investments	**(4,777,295)**	7,131,860
(Increase)/decrease in trade and other receivables	**524,051**	(514,073)
(Increase)/decrease in financial assets held for trading	**(1,901,297)**	7,498,704
(Increase) decrease in deferred tax assets	**-**	-
(Increase)/decrease in other assets	**-**	-
(Decrease)/increase in trade and other payables	**756,777**	(963,887)
(Decrease)/increase in current tax liabilities	**30,567**	48,053
(Decrease)/increase in deferred tax liabilities	**1,849,420**	(3,769,709)
Net cash inflow (outflow) from operating activities	**1,790,914**	1,719,047

17 Financial risk management

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

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

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17 Financial risk management *(continued)*

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 Group and the Fund Manager from time to time. The Mandate provides that the Portfolio will be managed with the following investment objectives:

to achieve a pre tax and pre expense return which outperforms the ASX All Ordinaries Index; and

the preservation of capital invested. The Mandate permits the Fund Manager to undertake investments in:

(1) listed securities;

(2) rights to subscribe for or convert to listed securities (whether or not such rights are tradeable on a securities exchange);

(3) any securities which the Fund Manager reasonably expects will be quoted on the ASX within a 24 month period from the date of investment;

(4) listed securities for the purpose of short selling;

(5) warrants or options to purchase any investment and warrants or options to sell any investment;

(6) discount or purchase of bills of exchange, promissory notes or other negotiable instruments accepted, drawn or endorsed by any bank or by the Commonwealth of Australia, any State or Territory of Australia, or by any corporation of at least an investment grade credit rating granted by a recognised credit rating agency in Australia;

(7) deposits with any bank or corporation declared to be an authorised dealer in the short term money market;

(8) debentures, unsecured notes, loan stock, bonds, promissory notes, certificates of deposit, interest bearing accounts, certificates of indebtedness issued by any bank or by the Commonwealth of Australia, any State or Territory of Australia, or any Australian government authority, or a corporation of at least an investment grade credit rating granted by a recognised credit rating agency in Australia;

(9) units or other interest in cash management trusts;

(10) underwriting or sub underwriting of securities as and where permitted by relevant laws and regulations and the Fund Manager's AFSL; and

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

The Mandate specifies the following risk control features:

The Portfolio may comprise securities in up to 80 companies from time to time.

No investment may represent more than 12.5% of the issued securities of a company at the time of investment.

Total cumulative gearing on the Portfolio may not exceed 50% of the total value of the net tangible assets of the Group after tax.

The Fund Manager will adhere to the parameters on a per stock basis as set out in the table below unless the prior approval of the Board is received to do otherwise.

17 Financial risk management *(continued)*

Portfolio composition and management

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

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

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

Size of company	Minimum investment per security	Indicative benchmark Investment per security	Maximum investment per security As a percentage of total portfolio
ASX S&P Top 20	1%	5%	12.5%
ASX S&P Top 100/Cash Hybrids	1%	3%	10%
ASX S&P Top 500	No minimum	2%	7.5%
Outside of ASX S&P Top 500/Other Instruments	No minimum	1%	5%

Asset allocation

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

global economy;

Australian economy and positioning within the economic cycle;

sectors within the Australian market;

phase of the interest rate cycle; and

state of the property market (eg comparative investment merit).

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

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17 Financial risk management *(continued)*

(a) Market risk

(i) Price risk

The Company is exposed to equity securities and derivative securities price risk. This arises from investments held by

the Company for which prices in the future are uncertain. Where nonmonetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured. They are classified on 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 this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board. The mandate specifies that following risk control features:

The Portfolio may comprise securities in up to 80 companies from time to time:

no investment may represent more than 12.5% of the issued securities of a company at the time of investment

total cumulative gearing on the Portfolio may not exceed 50% of the total value of the net tangible assets of the Company after tax

the Fund Manager will adhere to the parameters on a per stock basis as set out in the table below unless the prior approval of the Board is received to do otherwise.

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

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

The table on page 35 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 2010. The analysis is based on the assumptions that the index increased/ decreased by 10% (2009 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 nonmonetary assets denominated in currencies other than the Australian dollar.

(ii) Interest rate risk

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

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

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

Weighted Average Interest		YEAR ENDED CONSOLIDATED	
	Rate (% pa)	**30 June 2010**	30 June 2009
Financial Assets			
Cash and short term deposits floating	5.33%	**7,488,660**	7,073,484
	5.33%	**7,488,660**	7,073,484

17 Financial risk management *(continued)*

(b) Summarised sensitivity analysis

The table below summarises the impact of an increase/decrease of interest rates on the Company's operating profit and net assets attributable to shareholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 50 basis points (2009: +/- 50 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of fixed interest securities.

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

	Price Risk		Interest Rate Risk	
	10%	**+10%**	**50bps**	**+50bps**
	Impact on Operating Profit/Equity			
30 June 2010	(3,067,545)	3,067,545	(85,516)	85,516
30 June 2009	(2,405,106)	2,405,106	(24,016)	24,016
	(5,472,651)	5,472,651	**(109,532)**	109,532

(c) Credit risk

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

As at 30 June 2010 the Company does not hold any debt securities.

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

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

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

The majority of cash assets are held with one bank.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow interest rate risk is the risk that future cash flows on a financial instrument will fluctuate because of changes in the market interest rates.

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

The Company does not hold derivatives.

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

NOTES TO THE FINANCIAL STATEMENTS

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17 Financial risk management *(continued)*

(e) Fair value measurements

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

As of 1 July 2009, Katana Capital Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

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

Group as at 30 June 2009	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Held for trading financial assets -				
Equity securities	23,441,124	-	406,932	24,051,056
Total assets	23,441,124	-	406,932	24,051,056

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and availableforsale 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, overthecounter derivatives) is determined using valuation techniques. The Company 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 longterm debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

17 Financial risk management *(continued)*

(e) Fair value measurements *(continued)*

The following table presents the changes in level 3 instruments for the year ended 30 June 2010:

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

The following table presents the changes in level 3 instruments for the year ended 30 June 2009:

Group	Total
	$
Opening balance	820,115
Transfer into level 3	-
Other increases	-
Gains recognised in other comprehensive income	-
Loss recognised in profit or loss	(413,183)
Closing balance	406,932
Total loss for the period included in profit or loss that relate to assets held at the end of the reporting period	(413,183)

18 Segment information

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

19 Earnings per share

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	Cents	Cents
(a) Basic earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**12.89**	(18.53)
There are no dilutive securities on issue as at 30 June 2010.	**-**	-

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
(b) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Loss from continuing operations	**5,308,691**	(7,711,901)
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**5,308,691**	(7,711,901)

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	Number	Number
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**41,177,638**	41,620,466
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	**41,177,638**	41,620,466

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 2010.

20 Events occurring after the reporting period

A final fully franked dividend of 1.25 cents per share for the 30 June 2010 financial year has been declared by the Group. The Directors note that other than the dividend declaration, the Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operations of the Group or the results of those operations, or the state of affairs of the Group in subsequent financial years.

21 Remuneration of auditors

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
(a) Audit services		
Ernst & Young Australia		
Audit and review of financial reports	**45,500**	45,500
Total remuneration for audit services	**45,500**	45,500
(b) Nonaudit services		
Other services		
Other services	**-**	-
Total remuneration for nonaudit services	**-**	-
Total auditors' remuneration	**45,500**	45,500

22 Dividends

	YEAR ENDED PARENT ENTITY	
	30 June 2010	30 June 2009
	$	$
Final dividend for the year ended 30 June 2009 of 0.005 cents (2008 1.00 cents) per fully paid share paid on 17 December 2009 (2008 20 November 2008)		
Fully franked (2008 30% franked) based on tax paid @ 30% 0.005 cents (2008 1.0 cents interim) per share	**207,472**	416,848
Interim dividend for the year ended 30 June 2010 of 0.015 cents (2009 nil cents) per fully paid share (2010 paid 19 April 2010)	**614,024**	-
Total dividends provided for or paid	**821,496**	416,848
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2010 and 2009 were as follows:	**614,024**	
Paid in cash	**-**	416,848
	614,024	416,848

	YEAR ENDED CONSOLIDATED	
	30 June 2010	30 June 2009
	$	$
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	**530,805**	487,495

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

(a) franking credits that will arise from the payment of the amount of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and

(d) franking credits that may be prevented from being distributed in subsequent financial years.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

23 Parent entity financial information

	AT PARENT ENTITY	
	2010	2009
	$	$
Balance sheet		
Current assets	**38,478,836**	31,993,886
Noncurrent assets	**834,334**	2,683,755
Total assets	**39,313,170**	34,677,641
Current liabilities	**1,200,449**	497,872
Shareholders' equity		
Contributed equity	**39,526,993**	40,081,234
Option premium reserve	**101,100**	101,100
Accumulated loss	**(1,515,290)**	(6,002,562)
	38,112,803	34,179,772
Profit or loss for the year	**5,308,690**	(7,711,900)
Total comprehensive income	**5,308,690**	(7,711,900)

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 whollyowned 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 3).

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

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

Commitments and contingencies

There are no contingent liabilities or commitments as at 30 June 2010 (2009: nil).

24 Commitments and contingencies

There are no contingent liabilities or contingent assets as at 30 June 2010 (2009: nil).

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

the Fund Manager will receive a monthly management fee equal to 0.104167% of the portfolio value calculated at the end of the month

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

KATANA CAPITAL LIMITED
DIRECTORS' DECLARATION

30 JUNE 2010

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

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity set out on pages 16 to 43 are 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 2010 and of its performance for the year ended on that date; and

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

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

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

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010

On behalf of the Board

Katana Capital Limited

Giuliano Sala Tenna
Director

22 September 2010

Perth, Western Australia

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANA CAPITAL LIMITED

30 JUNE 2010

ERNST & YOUNG

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11 Mounts Bay Road
Perth WA 6000 Australia
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Report on the Financial Report

We have audited the accompanying financial report of Katana Capital Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANA CAPITAL LIMITED

30 JUNE 2010

ERNST & YOUNG

Independence

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

Auditor's Opinion

In our opinion:

1. the financial report of Katana Capital Limited is in accordance with the Corporations Act 2001, including:
   - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 12 of the directors' report for the year ended 30 June 2010. 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 2010 complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

C B Pavlovich
Partner

Perth

23 September 2010

CORPORATE GOVERNANCE STATEMENT

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

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

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

Principle 1 Lay solid foundations for management and oversight

Principle 2 Structure the board to add value

Principle 3 Promote ethical and responsible decision making

Principle 4 Safeguard integrity in financial reporting

Principle 5 Make timely and balances disclosure

Principle 6 Respect the rights of shareholders

Principle 7 Recognise and manage risk

Principle 8 Remunerate fairly and responsibly

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

CORPORATE GOVERNANCE STATEMENT

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

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

CORPORATE GOVERNANCE STATEMENT

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

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:	✓	The Company has implemented a suite of policies including a Code of Business Conduct which provides guidelines aimed at maintaining high ethical standards and corporate behaviour. The principals of the policies include: • Respect the law and act in accordance with it; • Respect confidentiality and not misuse company information, assets or resources; • Avoid real or perceived conflicts of interest; • Act in the best interest of stakeholders; and • Perform their duties in ways that minimise environmental impacts and maximise workplace safety. Directors and employees are expected to comply with all Company policies and to act professionally with integrity, honesty and responsibility at all times.
	(a) the practices necessary to maintain confidence in the Company's integrity;	✓	
	(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;	✓	
	(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;	✓	
3.2	Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of the policy	✓	The Company's security trading policy imposes basic trading restrictions on all directors and officers (including the Fund Manager) of the Company with "inside information" and additional trading restrictions on the directors of the Company. "Inside information" is information that: • Is not generally available; and • If it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities. Directors and employees are prohibited from trading in the Company's securities where they possess information which is not generally available and that information, if readily available, may have a material effect on the share price of the Company. Further, directors, officers and employees involved in the preparation and release of financial statements may not trade in the company's securities for the period commencing four weeks prior to the announcement of the results.
3.3	Provide the following information in the annual report:		
3.3.1	An explanation of any departure from recommendations 3.1, 3.2 and 3.3		Not applicable
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:	✓	
	(a) any applicable code of conduct or a summary of its main provisions	✓	The Code of Conduct is available on the Company's website in the Shareholder Corporate Governance section.
	(b) the trading policy or summary of its main provisions	✓	The Share Trading Policy on Dealing Rules for Employees and Directors is available on the Company's website in the Corporate Governance section.
4.1	The Board should establish an audit committee	✓	The Audit, Compliance and Risk Committee assists the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management procedures and the internal and external audit function. In doing so, it is the Audit and Risk Committee's responsibility to maintain free and open communications between the Committee, the external auditors, the internal auditors and the management of the Company.

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
4.2	Structure the audit committee so that it consists of:		The committee complies with the structure as required by the Best Practice Recommendation 4.2.
	a) only non-executive directors	✓	
	b) majority of independent directors	✓	
	c) independent chairperson, who is not the chairperson of the Board	✓	
	d) at least three members	✓	
4.3	The audit committee should have a formal charter	✓	The Audit, Compliance and Risk Committee Charter is available on the Company's website in the Corporate Governance section.
4.4	Provide the following information in the annual report:		
	(a) Details of the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee	✓	Refer to Director's Report
	(b) The number of meetings of the audit committee	✓	Refer to Director's Report
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		
	(a) the audit committee charter	✓	The charter of the Audit, Compliance and Risk Committee is available on the Company's website in the Corporate Governance section.
	(b) information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners	✓	The committee manages the relationship between the Company and external auditor on behalf of the Board. It recommends to the Board potential auditors for appointment, re-appointment or replacement, the terms of engagement and remuneration of the external auditor.
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. These policies or a summary of the policies should be disclosed.	✓	The Company's continuous disclosure policy has been adopted to ensure compliance with obligations under the continuous disclosure regime of the Corporations Law and the Listing Rules of the Australian Stock Exchange Limited and to ensure that all Katana shareholders have access to material information about the Company and its prospects. The disclosure obligations include: • All employees, Company officers and Directors must comply with the ASX Listing Rules and Corporations Law provisions relating to a timely disclosure of price sensitive information to the ASX. The Company does this by releasing written announcements to the ASX. • The Fund Manager together with the board are accountable for the establishment, communication and maintenance of this policy and ensuring that material information is disclosed to the ASX.

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
5.2	Provide the following information in the annual report:		
5.2.1	An explanation of any departures from recommendations 5.1and 5.2 and reasons for the departure		Not applicable.
5.2.2	The following material should be publicly available, ideally on the Company's website in a clearly marked corporate governance section: • A summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements	✓	The Company's Shareholder Communications Policy is available on the Company's website in the Corporate Governance section.
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓	The Company places considerable importance on effective communications with shareholders and other stakeholders. Katana's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the company. The strategy provides for the use of systems that ensure a regular and timely release of information about the company is provided to shareholders. Mechanisms employed include: • Announcements lodged with ASX; • Half Yearly Report • Monthly Net Tangible Asset Backing ASX disclosure; • Presentations at the Annual General Meeting; • Annual Report • Promote effective communication with shareholders; and • Encourage shareholder participation at AGMs.
6.2	Provide the following information in the annual report:		
6.2.1	An explanation of any departures from recommendation and reasons for the departure		Not applicable.
6.2.2	The Company should describe how it will communicate with its shareholders publically, ideally by posting this information on the company's website in a clearly marked corporate governance section.	✓	The Company's Shareholder Communications Policy is available on the Company's website in the Corporate Governance section.

CORPORATE GOVERNANCE STATEMENT

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

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
8.1	The Board should establish a remuneration committee	✗	As the company does not presently have any employees including employment of a Managing Director and Senior Executives there is no requirement for remuneration committee
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓	Refer Director's Report
8.3	Provide the following information in the annual report:		
8.3.1	the names of the members of the remuneration committee and their attendance at meetings of the committee, or where the Company does not have a remuneration committee, how the functions of a remunerations committee are carried out	✗	Refer 8.1
8.3.2	the existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors	✓	Refer Director's Report
8.3.3	An explanation of any departures from recommendation 8.1, 8.2 and 8.3 and reasons for the departure		Not applicable
	The following material should be made publicly available, ideally on the Company's website in a clearly marked corporate governance section:		
	(a) the charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee;	✗	Refer 8.1
	(b) a summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.	✓	The Company does not enter into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

ADDITIONAL ASX INFORMATION

KATANA CAPITAL LIMITED **ORDINARY FULLY PAID SHARES (TOTAL) As of 31 Aug 2010**

Range of Shares

Range	Total holders	Shares	% of Issued Capital
1 - 1,000	20	5,349	0.01
1,001 - 5,000	46	187,454	0.46
5,001 - 10,000	134	1,108,351	2.72
10,001 - 100,000	309	11,767,484	28.91
100,001 - 9,999,999,999	71	27,634,481	67.89
Rounding			**0.01**
Total	**580**	**40,703,119**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.00 per unit	0	0	0

TOP 20 SHAREHOLDERS

KATANA CAPITAL LIMITED **As at 28 September 2010**

Top 20 Holders

Rank	Name	Shares	% of Shares
1.	HOPERIDGE ENTERPRISES PTY LTD <JONES FAMILY A/C>	2,500,000	6.18
2.	WONDER HOLDINGS PTY LTD	2,349,144	5.81
3.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	2,182,533	5.39
4.	CLASSIC CAPITAL PTY LTD <BRL UNIT A/C>	1,121,183	2.77
5.	VERNON CHARLES WHEATLEY + JOYCELYN EDITH WHEATLEY <PULO RD SUPER FUND A/C>	1,070,577	2.65
6.	COOLAH HOLDINGS PTY LTD <LAMBERT FAMILY A/C>	1,010,000	2.50
7.	TAXA JUNO NOMINEES PTY LTD <RONALD JAMES FAMILY A/C>	830,000	2.05
8.	MR ROMANO SALA TENNA + MRS LINDA SALA TENNA <THE SALA TENNA SUPER A/C>	811,522	2.01
9.	BS CAPITAL PTY LTD <THE SHALLARD FAMILY A/C>	746,955	1.85
10.	MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL <THE SHALLARD SUPER FUND A/C>	706,722	1.75
11.	MR STEPHEN JAMES LAMBERT + MRS RUTH LYNETTE LAMBERT + MR SIMON LEE LAMBERT <LAMBERT RETIREMENT A/C>	681,165	1.68
12.	MRS LINDA SALA TENNA	533,897	1.32
13.	UNITING CHURCH IN AUSTRALIA PROPERTY TRUST (WA) <UCIF A/C>	523,419	1.29
14.	CAMBO INVESTMENTS PTY LTD	500,000	1.24
15.	MR LAWRENCE HENRY DA SILVA	500,000	1.24
16.	KEFIR PTY LTD <SNOWBALL SUPER FUND A/C>	500,000	1.24
17.	METHUEN HOLDINGS PTY LTD <THE PB FAMILY A/C>	500,000	1.24
18.	COLLORI PTY LTD <ELLSEE INVESTMENT A/C>	400,000	0.99
19.	S & M O'REILLY PTY LTD <BONA VISTA A/C>	400,000	0.99
20.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	400,000	0.99
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**18,267,117**	**45.15**
Total Remaining Holders Balance		**22,188,889**	**54.85**

KATANA
CAPITAL LTD

www.katanacapital.com.au