KATANA

CAPITAL LIMITED

2021 ANNUAL REPORT

CORPORATE DIRECTORY

Katana Capital Limited
ABN 56 116 054 301

Board of Directors

Mr Dalton Gooding
Chairman, Non-Executive Director

Mr Peter Wallace
Non-Executive Director

Mr Giuliano Sala Tenna
Non-Executive Director

Mr Gabriel Chiappini
Company Secretary

Solicitors

Steinepreis Paganin

Level 4, The Read Buildings
16 Milligan Street
Perth WA 6001

Auditors

Ernst & Young

11 Mounts Bay Road
Perth WA 6000

Share Registry

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Registered Office

Level 9, The Quadrant Building
1 William Street
Perth WA 6000

Stock Exchange

ASX LIMITED

152-158 St Georges Terrace
Perth WA 6000

ASX Code: KAT

Katana Capital combines 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 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.

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 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 longterm 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.

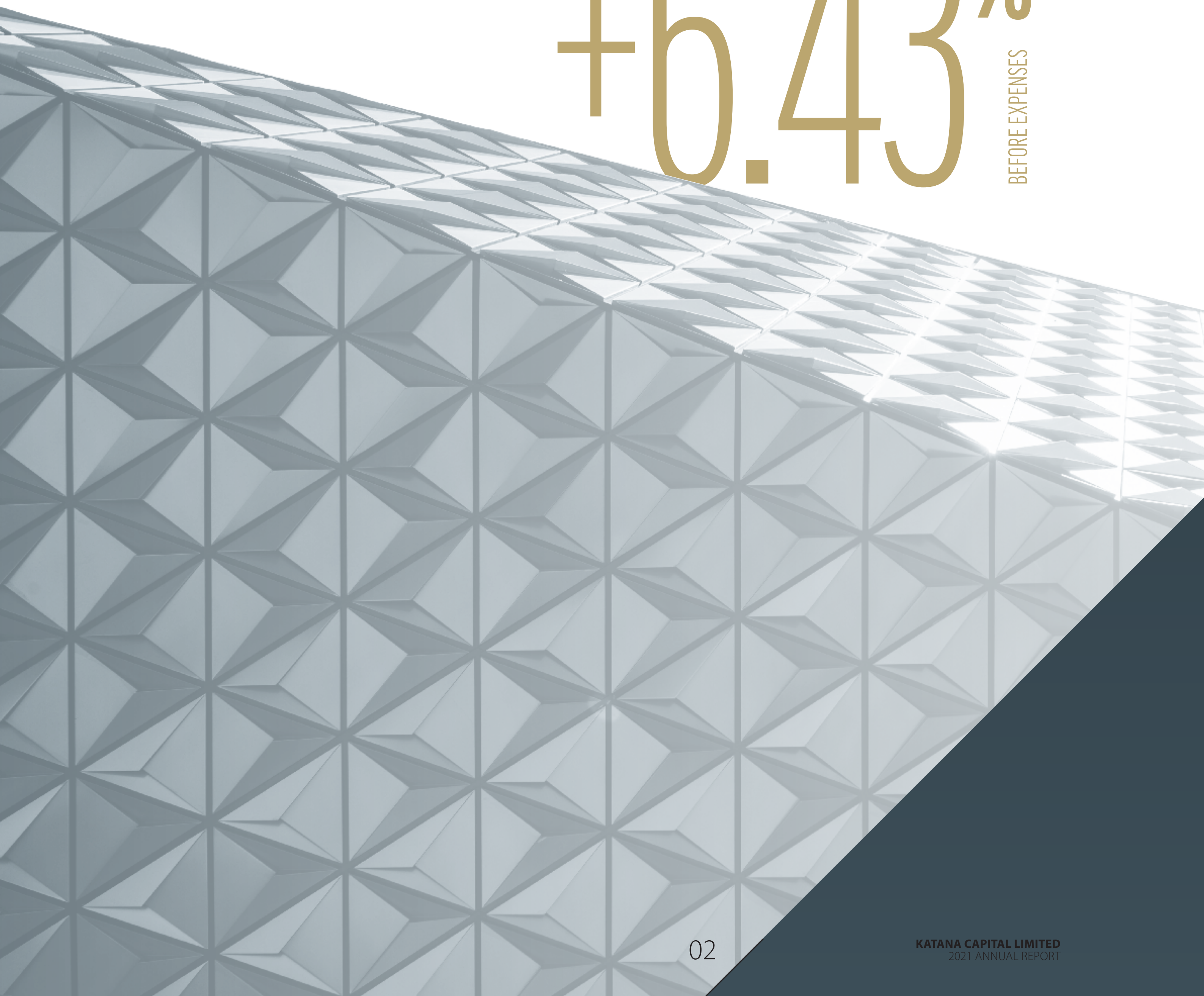
KATANA ASSET MANAGEMENT LTD ('THE MANAGER') HAS COMPLETED A REPORT ON THE PERFORMANCE OF KATANA CAPITAL LIMITED'S (KATANA) PORTFOLIO FOR THE 12 MONTHS TO 30 JUNE 2021.

INVESTMENT REPORT

The Manager is pleased to announce the fund generated a gross investment return of 32.82% versus 26.39% for the All Ordinaries index. **This represented a gross investment out-performance of**

+6.43%

BEFORE EXPENSES



> "The Manager is committed to maintaining a diversified portfolio, which it believes provides better risk adjusted returns compared to achieving that same outcome with a concentrated portfolio. The fund held an average of approximately 58 individual stock positions throughout the year. It is particularly rare for any position to exceed 5% of the portfolio, and as at the 30th June 2021, no position made up more than 4%. To further demonstrate this inherent conservatism, it is revealing that the total of the Top 10 positions represented just 25.2% of the portfolio."

KATANA'S
ROMANO SALA TENNA
& HENDRIK BOTHMA

INVESTMENT REPORT

2021 FINANCIAL YEAR REVIEW

The 2021 financial year was extraordinary by many measures yet not in comparison to 2020, which exhibited volatility and more pertinently uncertainty on a rare if not unprecedented scale. However, there were still a number of significant challenges to navigate including the ongoing impact of Covid-19 as different waves and variants emerged, specter of inflation at a transitory and structural level, rising bond yields, election of the Biden Government and China trade tariffs to name a few. As one would expect, our response evolved throughout the year as the facts emerged.

During the first part of the financial year our main focus was on the ongoing recovery trade, which had dominated our thinking at the back end of the 2020 FY. We also started the year with a sizeable overweight position in the banking sector, which is the first time in almost 5 years we were overweight. We were rewarded for this position as the sector recovered strongly in the first half of the year. Post this recovery, we see the banking sector as a market-proxy or market-beta, and expect the sector to move in line with the market but not to deliver any meaningful out-performance. Accordingly, we have once again moved to a sizeable underweight position.

By October, the index staged an impressive 40% rally from the March lows, and commentary was suggesting that the recovery had largely run its course. This was despite the index trading some 800 points below the pre-Covid-19 February high. Our thinking suggested otherwise, based on the twin drivers of Liquidity and Necessity, which we wrote about extensively in October and November. This ultimately proved correct as we saw the index add a further 25% from October to Financial Year end.

During January 2021, the US 10 Year Bond Yield broke out of its trading range, and after a short period of consolidation moved strongly from 100 bps to 175 bps in just over 6 weeks. This was a strong breakout and primarily driven by the market's assessment of the likelihood of rising inflation. The strong economic outlook (and hence the need to raise rates to cool the economy) also played a part.

As bond yields escalated, this of course increased the discount rate, which generated sizeable reductions in the current value of future earnings. This drove a pronounced rotation from high PER/long duration growth assets to value and cyclical stocks in March. Our assessment at the time was that we had seen the inflection point in bond yields and hence growth assets. In response we undertook a not insignificant re-weighting in line with this expected progression. Over the following month this played out as anticipated. However, towards and subsequent to FY year end, bond yields retraced far more significantly than we envisaged.

SOURCE: TRADEVIEW, KATANA CAPITAL

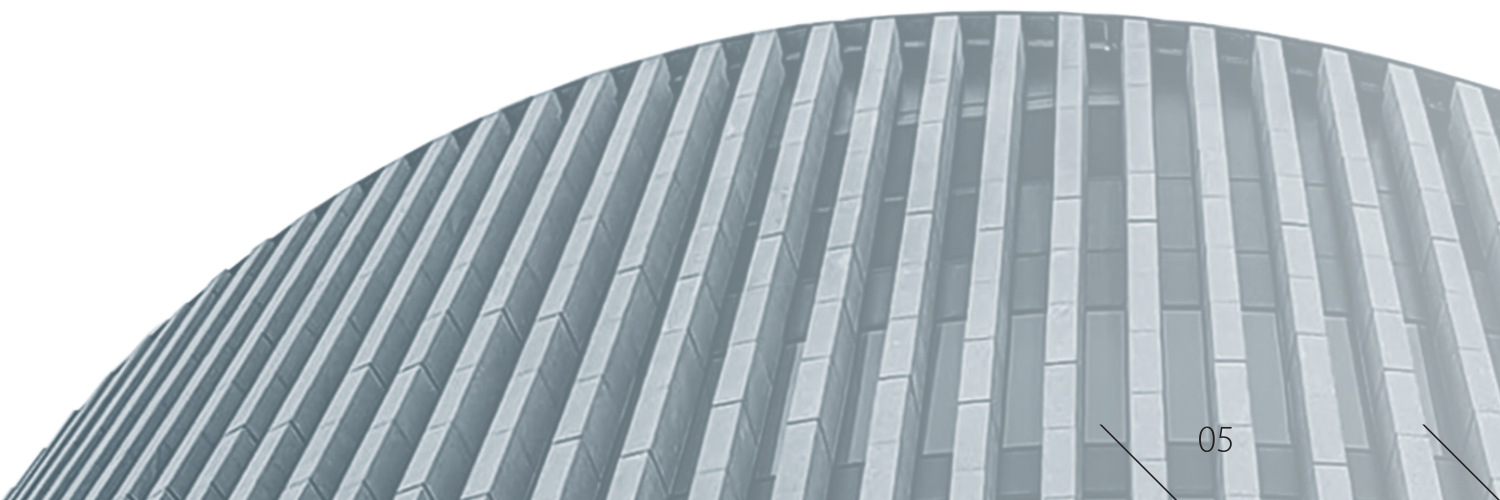
SOURCE: TRADEVIEW, KATANA CAPITAL

By June 2021, bond yields had fallen below key support levels and this downward move accelerated in July. Superficially this would appear to be nonsensical. Inflation is clearly on the rise as demonstrated by the US headline rate touching 5%, (making it a 13 year high). More importantly, Core Inflation reached a 40 year high based on the April/ May readings. Whilst this remains a work in progress, we continue to believe that bond yields need to grind higher in the coming months to reflect the level of underlying inflation in the US Economy.

As outlined earlier, the fund re-weighted towards value and cyclicals and away from long duration / growth stocks during the initial bond market shakeout. At a macro level this has not yet played out as expected. However, detailed bottom-up analysis has provided a meaningful level of outperformance. This is due in the most part to a re-rating in some specific cyclicals that are breaking long term downtrends as their profit drivers begin to recover.

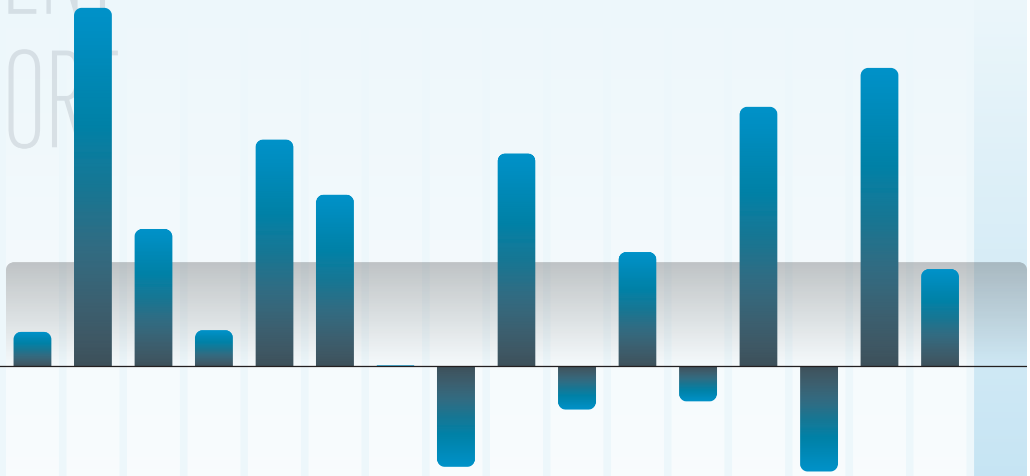
The Manager is committed to maintaining a diversified portfolio, which it believes provides better risk adjusted returns compared to achieving that same outcome with a concentrated portfolio. The fund held an average of approximately 58 individual stock positions throughout the year. It is particularly rare for any position to exceed 5% of the portfolio, and as at the 30th June 2021, no position made up more than 4%. To further demonstrate this inherent conservatism, it is revealing that the total of the Top 10 positions represented just 25.2% of the portfolio. Despite the often quoted benefits of a 'Concentrated Fund', the Manager continues to believe and demonstrate that holding a larger number of smaller positions is a better risk-adjusted approach for achieving long term returns.

> "During the first part of the financial year our main focus was on the ongoing recovery trade, which had dominated our thinking at the back end of the 2020."



INVESTMENT REPORT

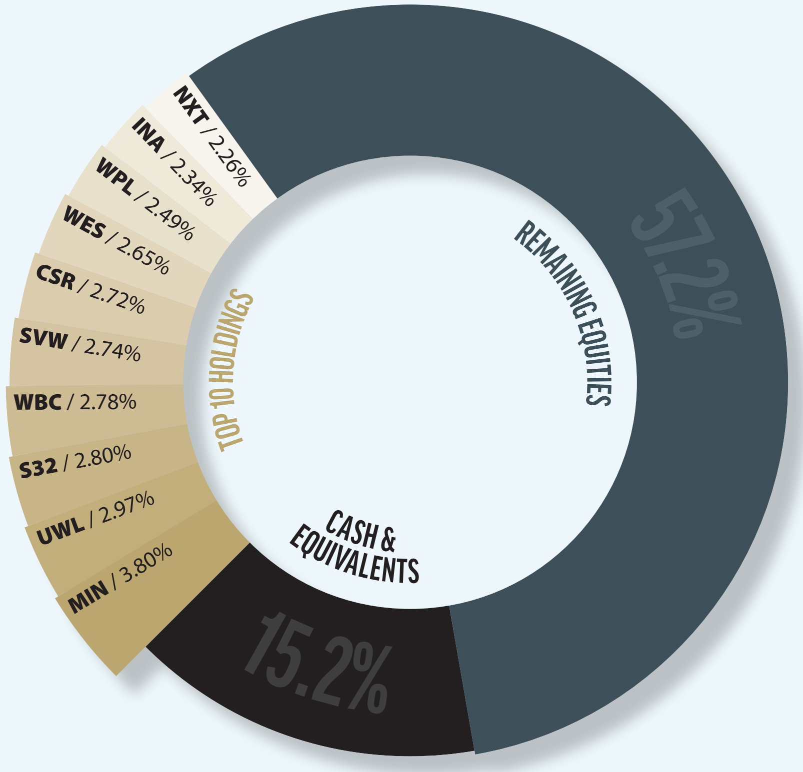
KATANA OUTPERFORMANCE vs ALL ORDS INDEX



YEAR ENDING		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	AVERAGE
Katana Gross Investment Return	%	9.20	49.05	-6.41	-23.57	24.54	19.10	-11.19	8.84	26.78	-1.57	4.98	6.23	26.27	-0.43	9.30	32.82	10.87
All Ords Index	%	6.91	25.36	-15.49	-25.97	9.55	7.75	-11.25	15.47	12.70	1.28	-2.58	8.54	9.12	6.51	-10.42	26.39	3.99
Outperformance	**%**	**2.29**	**23.69**	**9.08**	**2.40**	**14.99**	**11.35**	**0.07**	**-6.63**	**14.07**	**-2.85**	**7.56**	**-2.31**	**17.15**	**-6.94**	**19.72**	**6.43**	**6.88**

PERCENTAGE OF PORTFOLIO VALUATION

AS AT 30 JUNE 2021



OUTLOOK

The market attempted to correct in May but rebounded solidly and swiftly. In the short term we are overdue a 5-15% retracement. Such pullbacks are healthy and build a foundation of strong holders for the next significant move.

Over the medium term, there are as always a plethora of reasons to be negative and underweight equities. Our task is to sift through these potential drivers and prioritise in a manner that enable us to filter out the noise and focus attention on "probabilities" not "possibilities". To this end, there are a number of noteworthy observations:

Positive Drivers	Uncertainties
Liquidity	Inflation – nature and extent
Necessity	Bond Yields
Confidence / velocity of money	Deteriorating US-China relations
Earnings are rebounding	Peak earnings
Government stimulus	Resurgent of Covid-19

POSITIVE DRIVERS

Liquidity

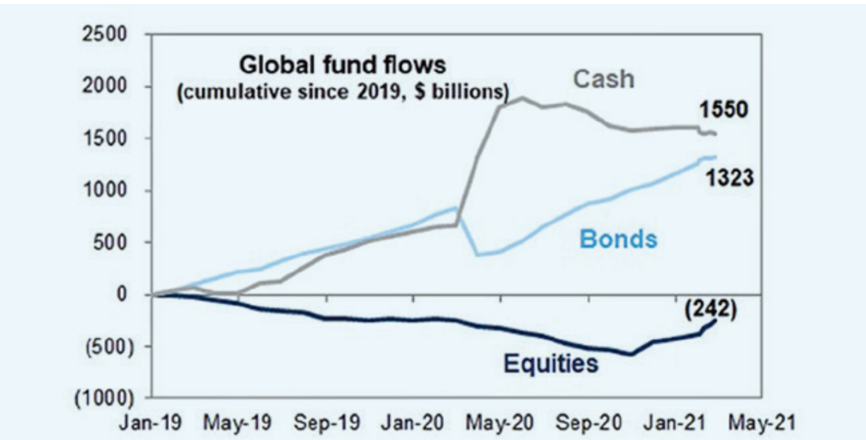
Firstly, our twin drivers of Liquidity and Necessity, remain intact. An enormous amount of money has been created and is searching for a home. Indisputably, global central banks have 'printed' more money than at any time in history. Even within our own borders, the Reserve Bank of Australia (RBA), has effectively overseen money printing for the first time in the history of our country.

The piece of the puzzle that was missing in our assessment was the 'velocity of money'. This had remained stubbornly low with corporates and private households alike choosing to repair balance sheets and create excess liquidity, rather than spend the money and create the multiplier effect. But as with every cycle, as confidence returns, this enormous amount of surplus liquidity will circulate at an increasing rate, and in the process inflate the price of all finite assets – including equities.

We were and remain of the view that traditional (monetary) policy would also have less scope to reduce this liquidity.

Added to this, as at October, investors remained underweight equities and overweight cash. And this was at a time where the tsunami of all flows was about to reverse, as we witnessed the end of the 37 year bull market in bonds. As yields bottomed around 50 basis points and then broke decisively upwards, bond prices broke trend for the first time in nearly 4 decades.
Our belief at the time and to this day, is that:

1. Firstly, an increasing percentage of new money will gravitate to equities versus bonds; and
2. That some of the existing money invested directly or in bond funds, would at some point in the cycle leak out to other asset classes including equities.



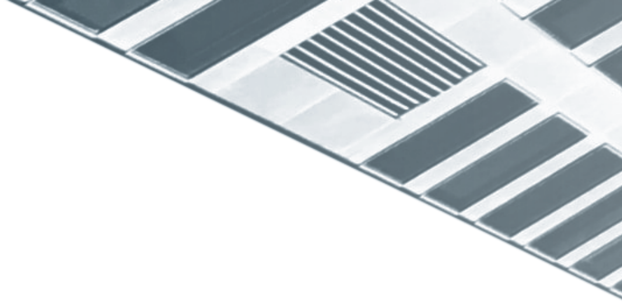
SOURCE: GOLDMAN SACHS RESEARCH

Necessity

Cash rates are not improving, in fact they are reaching record lows. In 2008 as the last major crash unfolded, the 11am official cash rate (Australia) was nearly 7%. Today it is precisely 0.1%. In 2008, nervous investors had an alternative that generated a positive return after inflation. Today they do not. This clearly requires investors to move up the risk curve and deploy capital in equities.

There were and remain 2 aspects to Necessity as a driver:

1. ***Relative returns*** - the differential between cash rates/bond yields and equity yields reached the highest on record. This differential far exceeded any rational application of equity risk premium. In a relative sense, advisers and investors alike were effectively coerced and left with no alternative but to increasingly allocate to equities on a risk-adjusted basis; and
2. ***Absolute returns*** - Cash rates are at the lowest on record with most major economies at or near 0%, with some nominal rates actually negative – i.e. before allowing for tax and inflation. When inflation is included, real interest rates in most major economies are in the order of negative 2%. Adviser and investors alike are required to take on more risk to achieve sustainable returns. Reluctantly at first, but inevitably in the end.



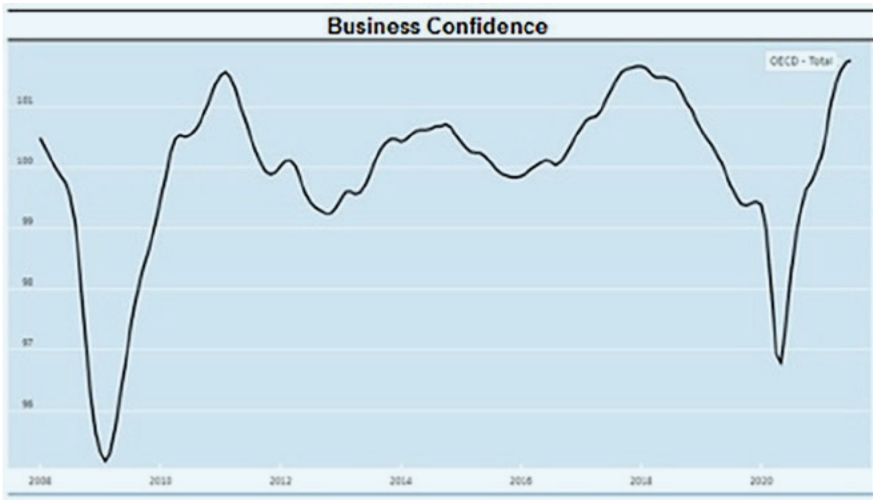
OUTLOOK - CONTINUED

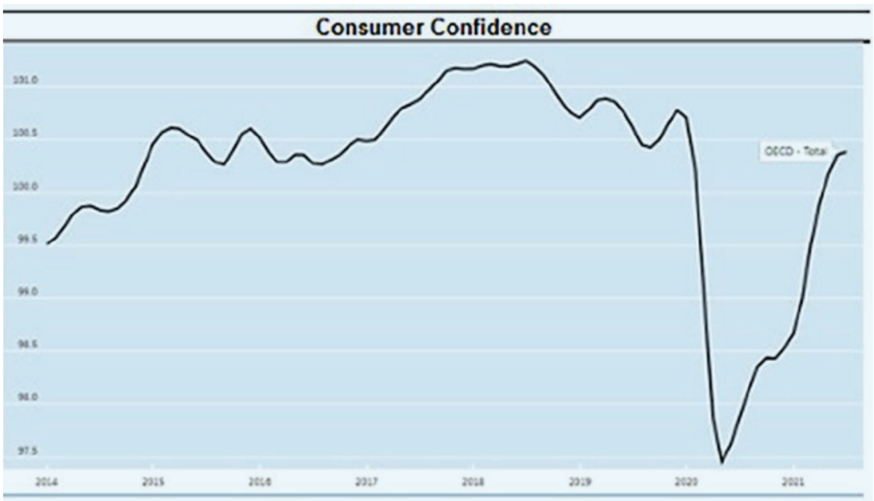
Confidence / Velocity of Money

We also have a return of the missing ingredient "Confidence". Confidence is the lubricant that gets the different cogs turning. As confidence improves, the velocity of money increases. Yes, this confidence is fragile but history suggests that in a typical cycle, confidence engenders more of the same and becomes self-perpetuating for a period.

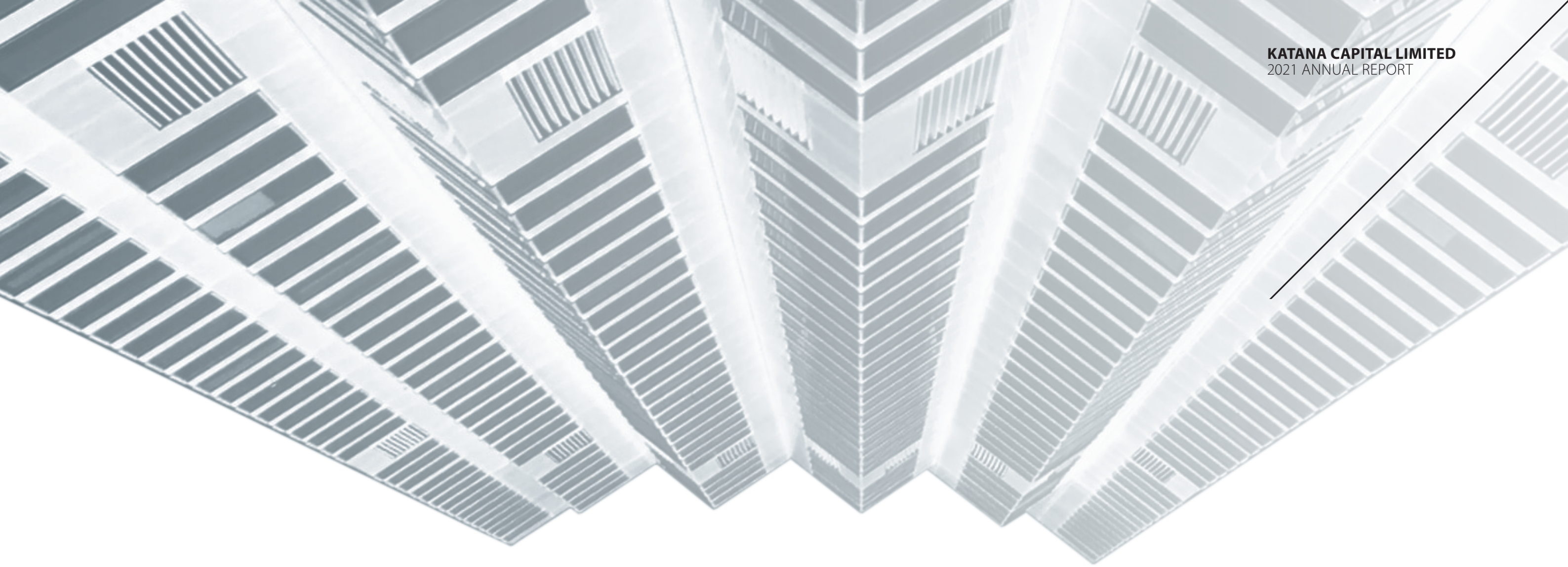
Related to confidence is earnings growth. As we cycle off low comps and pent up demand, the 2021 earnings season (particularly in the US) should be robust.

However, moving forward, there is a question mark over earnings growth. Have we arrived at peak earnings or at the very least the peak in the rate of earnings growth? With either scenario, this is more likely to impact the rate that equities will appreciate, rather than the direction. If we are past the earnings growth phase, we may see a short term reaction as the market adjusts. However, liquidity and necessity will continue to drive asset prices higher.





SOURCE: OECD.ORG, BUSINESS TENDENCY AND CONSUMER OPINION SURVEYS



Uncertainties for the Year Ahead

There is a question mark on the nature and extent of the inflationary spike we are currently seeing. In simplistic terms, is this spike transitory, or is there a more permanent, structural component? Whilst the data is not as yet definitive, it is likely that the larger component is transitory, but – and this is not a small but – there's also likely to be an underlying component. A level of inflation below 3% is manageable and unlikely to derail the equity markets. But consistent readings at or above this level will not only impact input costs across the spectrum, but also require a policy response.

This clearly feeds into bond yields, and as we outlined earlier, yields/interest rates are also being driven by specific supply-demand factors together with the earnings outlook. As with inflation, a rise in bond yields may have a short term effect, but the equity risk premium is so skewed, that we would need to see a rise well above 2% on the US 10–year benchmark to fundamentally alter the relative attractiveness of equities. However, the growth-vs-value equation is impacted as outlined above, and this remains a greater focus as opposed to the impact on the market in its entirety.

Deteriorating US–China and indeed Australia-China relations require ongoing monitoring across some (limited) sectors. But more broadly we see this as noise at the present time.

Which brings us to the X-Factor: Covid-19. The markets are becoming desensitized to daily news flow in comparison to the shock and awe that Covid-19 initially engendered. However, this can change once more if we see the emergence of new strains that have higher levels of transmission or morbidity, or impact the level of vaccine efficacy. At present, there is uncertainty around the Delta strain, and we would expect new and more virile strain(s) to arise in the coming period. On the surface, this would appear to be problematic for both the economy and equity markets.

But as with our very first assessment in March 2020, our base case remains that for every Covid-19 action, there will be an equal and opposite Government RE-action. From the outset, our base case has been that the 4 major central banks would work in unison with their respective Governments in an unprecedented manner. What began in 2008 as a sensible response to a depression level catalyst, has morphed into populist politics of the highest and most dangerous order. We are truly in unchartered territory. Dangerous territory. For example, does it make sense that we have printed as much as we have in such a compressed timeframe? No. Are permanent budget deficits sustainable? Probably not! But – and this is the key in our view – will Governments and Central Banks continue to respond and will this response drive equities higher? Most likely. And this is our end position.

“What began in 2008 as a sensible response to a depression level catalyst, has morphed into populist politics of the highest and most dangerous order. We are truly in unchartered territory. Dangerous territory.”

INVESTMENT REPORT

STRATEGIC POSITIONING

The combination of liquidity, necessity, improving confidence, rebound in earnings and ongoing Government and Central Bank stimulation, represent a more compelling set of drivers than the converse. Accordingly, we intend to maintain existing equity weightings and cash levels. Of course, as always we remain ready to pivot rapidly should the coming data points not line up with our expectation.

The more predictable part of the cycle is now largely behind us and the coming 12 months are likely to be characterised by heightened volatility. This provides a tailwind for active managers, and additionally, this volatility is likely to further reward active managers who are nimble and flexible and can pivot rapidly. This fits well with our active and style-agnostic approach, which in our view positions the fund to benefit from current market conditions.

The funds turnover remains high at 1.6 times, and active share high at 73%. To put this in perspective, an active share north of 60% is considered an excellent indication of the willingness to add value by deviating from the benchmark. We believe that we are heading into the phase of the bull market where the ability to pivot rapidly is more important than ever, and we are well equipped to capitalize.

Looking forward, it is impossible to predict what challenges the market will produce in the coming 12 months. However, what we can control is the team and process that will respond to these challenges. And on that score we are confident in saying that we enter the 2022 FY with the strongest team in the fund's 16 year history.

CORPORATE

Katana Capital Limited finished FY21 with 35,629,062 shares on issue. During the period from 1 July 2020 to 30 June 2021 2,646,112 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.91 with the price ranging from $0.79 to $1.02 per share. The buyback also provided liquidity and increased the underlying net asset backing for all existing shareholders.

Katana paid four quarterly dividends, totaling two cents during FY21. Once again, the dividends were all fully franked.

The Manager remains committed to outperforming its benchmark and rewarding shareholders with solid dividends. The Fund has declared and paid a 0.5 cent fully franked dividend subsequent to the year end.

On behalf of all of the staff at Katana Asset Management, we take this opportunity to once again thank Katana Capital's valued shareholders for your support.

Romano Sala Tenna

INVESTMENT MANAGER
Katana Asset Management Limited

30 JUNE 2021

DIRECTOR'S REPORT

YOUR DIRECTORS PRESENT THEIR REPORT WITH RESPECT TO RESULTS OF KATANA CAPITAL LIMITED (THE "COMPANY" OR "KATANA CAPITAL") AND ITS CONTROLLED ENTITIES (THE "GROUP" OR "THE CONSOLIDATED ENTITY") FOR THE YEAR ENDED 30 JUNE 2021 AND THE STATE OF AFFAIRS FOR THE COMPANY AT THAT DATE.

DIRECTORS

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

Information on Directors

Dalton Gooding – BBUS, FCA
(Non-Executive Chairman)

Dalton Gooding is a Fellow of the Institute of Chartered Accountants in Australia and he is the Senior Partner of Gooding Partners, which was established in 1998 after 14 years as a partner at Ernst and Young and has over 40 years' experience in business advisory and corporate finance related services.

Mr Gooding also has a number of other directorships of companies in many different segments of business.

Peter Wallace – SF FIN, FAICD, AFAIM.
(Non-Executive Director)

Prior to his retirement in 2007 Mr. Wallace was the Head of Corporate (Western Australia) for Bell Potter Securities Ltd, Australia's largest retail broking house.

Mr Wallace has also previously held senior executive positions with Challenge Bank Limited including Chief Operating Officer and Chief Credit Officer roles. He held numerous directorships in Companies controlled by Challenge Bank Ltd including those holding the Bank's Securities Dealers License (the R.E. for Financial Advisory activities) as well as a joint venture payments business with the U.S. banking group Chase Manhattan.

Mr Wallace is Chairman of Icon Engineering Pty Ltd.

He is a Senior Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and an Associate Fellow of the Australian Institute of Management.

Mr Wallace brings to the Company 42 years in the Banking and Finance industry with experience gained in all aspects of debt and equity raising.

During the past three years Mr Wallace has also served as a director of the following other listed companies:

> Blossomvale Holdings Ltd
  – appointed 8 July 2011, until July 2020 when Blossomvale was removed from the ASX

> Goldfields Money Ltd
  – appointed 7 August 2014

Giuliano Sala Tenna – BBUS (DISTINCTIONS)
(Non-executive Director)

Giuliano Sala Tenna has worked in the Finance Industry for over 20 years in various fields including Credit, Business Development, Product Structuring, Funds Management, Investment Management and Corporate Advisory.

Mr Sala Tenna has completed a Bachelor of Commerce degree at Curtin University of Technology with a double major in Economics and Finance (With Distinctions). Giuliano has also completed the Graduate Diploma in Financial Planning at the Securities Institute of Australia, 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, Fellow of FINSIA and a Graduate Member of the Australian Institute of Company Directors. He is regularly quoted in the West Australian, Sunday Times and Australian Financial Review alongside appearing on the ABC News and Business Program.

COMPANY SECRETARY

Gabriel Chiappini – BBUS, GAICD, CA

Mr Chiappini is a Chartered Accountant and member of the Australian Institute of Company Directors with over 19 years' experience in the commercial sector. Over the last 14 years Gabriel has held positions of Director, Company Secretary and Chief Financial Officer in public and private companies with operations in Australia, the United Kingdom and the United States. He has assisted a number of companies to list on the ASX and been involved with equity raisings exceeding AUD $300 million. Gabriel has a sound understanding of the ASX Listing Rules and in-depth knowledge of the Corporations Act.

Gabriel is currently a director at Invictus Energy Ltd (ASX.IVZ), Eneabba Gas Ltd (ASX:ENB) and Black Rock Mining (ASX.BKT) and Company Secretary at Adriatic Metals plc (ASX:ADT) and Black Dragon Gold Corporation (ASX:BDG).

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 2021, and the numbers of meetings attended by each director were:

	DIRECTORS' MEETINGS		AUDIT & COMPLIANCE COMMITTEE MEETING	
	A	B	A	B
Dalton Gooding	11	11	2	2
Peter Wallace	11	11	2	2
Giuliano Sala Tenna	9	11	2	2

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

Committee membership

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

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

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

Directors' interest in Shares and Options

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

	NO. OF SHARES 30 JUNE 2021	NO. OF SHARES 30 JUNE 2020
Dalton Gooding	**93,543**	91,476
Peter Wallace	**275,000**	300,000
Giuliano Sala Tenna	**-**	-

EARNINGS PER SHARES

	YEAR ENDED 30 JUNE 2021 CENTS	YEAR ENDED 30 JUNE 2020 CENTS
Basic and diluted earnings per share	**20.54**	3.92
Basic earnings from continuing operations attributable to the ordinary equity holders of the company	**20.54**	3.92

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 37,085,506 (2020: 38,275,174).

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 2021:

		YEAR ENDED 30 JUNE 2021	YEAR ENDED 30 JUNE 2020
Dividends paid during 1st Quarter of the year	Total paid ($'000)	**191**	208
	Cents per share	**0.5 cents**	0.5 cents
Dividends paid during 2nd Quarter of the year	Total paid ($'000)	**189**	203
	Cents per share	**0.5 cents**	0.5 cents
Dividends paid during 3rd Quarter of the year	Total paid ($'000)	**183**	295
	Cents per share	**0.5 cents**	0.75 cents
Dividends paid during 4th Quarter of the year	Total paid ($'000)	**182**	-
	Cents per share	**0.5 cents**	-
	Total paid ($'000)	**745**	706

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 Level 9, The Quadrant Building, Perth, Western Australia.

Principal activity

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

Employees

As at 30 June 2021, the Group did not have any fulltime employees (2020: Nil).

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Company overview

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

Katana Capital Limited is pleased to report that the fund generated a gross investment return of 32.82% for FY21 versus 26.39% for the All Ordinaries index. This represented a gross investment out-performance of +6.43% (before expenses).

FY21 was an extraordinary year by many measures however not as volatile as FY20 which exhibited uncertainty on a rare if not unprecedented scale. However, there were still a number of significant challenges to navigate including the ongoing impact of Covid-19 as different waves and variants emerged along with the potential for inflation, a challenging US presidential election and tensions in the trading relationship with China. By October, the All Ordinaries index staged an impressive 40% rally from the March 2020 lows, and commentary was suggesting that the recovery had largely run its course. This was despite the index trading some 800 points below the pre-Covid-19 February 2020 high. Ultimately the index added a further 25% from October 2020 to the Financial Year end which assisted Katana achieving a net profit after tax of $7,619,180 compared to FY20 prior year of $1,569,860.

The net profit after tax for the year ended 30 June 2021 was $7,619,180 (2020: $1,569,860).

Investments for future performance

The Manager is committed to maintaining a diversified portfolio, which it believes provides better risk adjusted returns compared to achieving that same outcome with a concentrated portfolio. The fund held an average of approximately 58 individual stock positions throughout the year. It is particularly rare for any position to exceed 5% of the portfolio, and as at the 30th June 2021, no position made up more than 4%. To further demonstrate this inherent conservatism, it is revealing that the total of the Top 10 positions represented just 25.2% of the portfolio. Despite the often quoted benefits of a 'Concentrated Fund', the Manager continues to believe and demonstrate that holding a larger number of smaller positions is a better risk-adjusted approach for achieving long term returns.

Cash from operations

Net cash inflows from operations were $419,000 (2020: $2,627,000) during the year which reflects the Group's investment from the Australian equities market.

Due to the expected continuation in market volatility it is difficult to assess the Company's relative weighting in cash and defensive liquid positions.

Liquidity and funding

The Company foresees no need to raise additional equity and will use its remaining cash reserves to invest into the Australian equities market along with continuing dividend payments and share buy-backs.

Risk management

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

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SIGNIFICANT CHANGES AFTER BALANCE DATE

Other than the events below, the Directors are not aware of any matter or circumstance that has significantly or may significantly affect the operation of the Company or the results of those operations, or the state of affairs of the Company in subsequent financial years.

On 5 July 2021, the company announced a fully franked 0.50 cent per share dividend.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The combination of Quantitative Easing (printing of money), record low interest rates and continued government fiscal policy support provides a strong basis for improving consumer & business confidence which in turn should support equity market valuations. Accordingly, the fund intends to maintain existing equity weightings and cash levels while remaining alert to pivot rapidly should the coming data points not line up with expectations.

Looking forward, it is impossible to predict what challenges the market will produce in the coming 12 months. However, what Katana Capital Limited and the fund can control is the team and process that will respond to these challenges. We are confident in saying that we enter the FY22 with the strongest team in the fund's 16 year history.

As at the date of this report the fund returned an uplift in net assets after tax of 1.16% for July 2021 and 2.12% for August 2021, Katana will continue to report its monthly NTA result to the ASX.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

ROUNDING

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

SHARE OPTIONS

Unissued shares

There were no options outstanding as at 30 June 2021.

Shares issued on the exercise of Options

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

Options granted as remuneration

There were no options granted as remuneration.

REMUNERATION REPORT (AUDITED)

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

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

(a) Details of Key Management Personnel

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

(i) Chairman – non-executive

Dalton Gooding

(ii) Non-executive directors

Peter Wallace
Giuliano Sala Tenna

(b) Key management services – Katana Asset Management Ltd

In addition to the Directors noted above, Katana Asset Management Ltd, the Fund Manager for the Group provides the Group with key management services. The directors of Katana Asset Management Ltd are Brad Shallard and Romano Sala Tenna.

Officer

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

Remuneration philosophy

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

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

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

REMUNERATION REPORT (AUDITED) - CONTINUED

Remuneration structure

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

(i) Non-executive director remuneration

Objective

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

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At present the aggregate remuneration totals $200,000 per year in respect of fees payable to non-executive directors. This amount was approved by shareholders at the annual general meeting held on 10 November 2005.

The amount of aggregate remuneration, including the issue of options sought to be approved by shareholders and the manner in which it is apportioned amongst directors, is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. During the year there were no external consultants utilised to provide remuneration recommendation.

The Board considers that the majority of the Group's performance lies with the Fund Manager.

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

The remuneration of non-executive directors for the year ended 30 June 2021 is detailed on page 19 of this report.

(ii) Senior manager and executive director remuneration

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

Employment contracts

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

(iii) Compensation of Katana Asset Management Ltd

No amount is paid by the Group directly to the directors of Katana Asset Management Ltd. Consequently, no compensation is paid by the Group to the Directors of Katana Asset Management Ltd 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 initial Management Agreement was extended for a further period of five years on 24 November 2015. This was further extended for another five years on 14 October 2020. The Management Agreement was renewed on the following basis.

1. the renewal is approved by Shareholders of the Company, such approval being sought 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.

REMUNERATION REPORT (AUDITED) - CONTINUED

Remuneration structure - CONTINUED

(iii) Compensation of Katana Asset Management Ltd - CONTINUED

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

   The Company may immediately terminate the Management Agreement if:
   (a) the Fund Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;
   (b) the Fund Manager's AFSL is suspended or cancelled at any time for any reason;
   (c) the Fund Manager commits a fundamental default or breach of its obligations under the Management Agreement or is in breach of any conditions of its AFSL and such default or breach is not remedied within 30 days after the Company has notified the Fund Manager in writing to remedy that default or breach;
   (d) the Fund Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
   (e) a receiver or receiver and manager is appointed to the whole or part of the undertaking of the Fund Manager;
   (f) a change in control of the Fund Manager occurs without the Fund Manager obtaining at least 30 days prior written consent from the Company;
   (g) the Fund Manager is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement;
   (h) the Fund Manager fails to remedy a breach of the Management Agreement within the time period reasonably specified in a notice from the Company requiring it to do so;
   (i) the Fund Manager persistently fails to ensure that investments made on behalf of the Company are consistent with the investment strategy applicable to the Company at the time the relevant investment is made; or
   (j) the Fund Manager is not lawfully able to continue to provide services to the Company pursuant to the terms of the Management Agreement.

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

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

Management and performance fees

Total management and performance fees paid and accrued by the Group to Katana Asset Management Ltd for the year ended 30 June 2021 was $666,203 (30 June 2020: $830,638) as follows:

(i) Management fee

The Fund Manager receives a monthly management fee equal to 0.08333% (2020: 0.08333%) of the Portfolio value calculated at the end of each month. The fee for 2021 was $425,306 (2020: was $313,312). The directors and shareholders of Katana Asset Management Ltd are also shareholders of Katana Capital Limited.

(ii) Performance fee

Performance fee to be paid in respect of each performance calculation period of 15% (2020: 15%) 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 was qualified to receive a performance fee of $240,897 for the financial year ended 30 June 2021 (2020: $517,326).

REMUNERATION REPORT (AUDITED) - CONTINUED

Company performance

The profit/(loss) after tax for the group from 2017 is as follows:

	2021	2020	2019	2018	2017
Profit/(loss) after tax expense $'000	**$7,619**	$1,571	$(628)	$5,645	$935
Earnings/(loss) per share - cents	**20.54**	3.92	(1.47)	12.85	2.10
Share Price 30 June	**1.02**	0.80	$0.75	$0.77	$0.71

Remuneration of directors and key management personnel of the Group

2021

NAME	SHORT-TERM EMPLOYEE BENEFITS: SALARY AND FEES	OTHER*	CASH	POST-EMPLOYMENT BENEFITS: SUPER-ANNUATION	LONG-TERM BENEFITS: TERMINATION BENEFITS	SHARE-BASED PAYMENTS: OPTIONS	TOTAL	PERCENTAGE OF REMUNERATION WHICH IS PEFORMANCE BASED
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Gooding	**70,000**	**-**	**-**	**6,650**	**-**	**-**	**76,650**	**-**
Peter Wallace	**40,000**	**-**	**-**	**3,800**	**-**	**-**	**43,800**	**-**
Giuliano Sala Tenna	**40,000**	**-**	**-**	**3,800**	**-**	**-**	**43,800**	**-**
Total non-executive directors & KMP	**150,000**	**-**	**-**	**14,250**	**-**	**-**	**164,250**	**-**

insurance premiums have not been included in other remuneration.

2020

NAME	SHORT-TERM EMPLOYEE BENEFITS: SALARY AND FEES	OTHER*	CASH	POST-EMPLOYMENT BENEFITS: SUPER-ANNUATION	LONG-TERM BENEFITS: TERMINATION BENEFITS	SHARE-BASED PAYMENTS: OPTIONS	TOTAL	PERCENTAGE OF REMUNERATION WHICH IS PEFORMANCE BASED
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Gooding	70,000	-	-	6,650	-	-	**76,650**	-
Peter Wallace	40,000	-	-	3,800	-	-	**43,800**	-
Giuliano Sala Tenna	40,000	-	-	3,800	-	-	**43,800**	-
Total non-executive directors & KMP	**150,000**	**-**	**-**	**14,250**	**-**	**-**	**164,250**	**-**

insurance premiums have not been included in other remuneration.

REMUNERATION REPORT (AUDITED) - CONTINUED

Equity instrument disclosures relating to key management personnel

(i) Option holdings

The following options were granted and held by the directors or key management personnel during the financial year:

- Mr Dalton Gooding - nil (2020: nil)
- Mr Peter Wallace - nil (2020: nil)
- Mr Giuliano Sala Tenna - nil (2020: nil)

(ii) Shareholdings

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

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

2021 NAME	BALANCE AT THE START OF THE YEAR	OTHER CHANGES DURING THE YEAR (PURCHASES/DISPOSALS)	BALANCE AT THE END OF THE YEAR
Directors of Katana Capital Limited			
Ordinary Shares			
Dalton Gooding	**91,476**	**2,067**	**93,543**
Peter Wallace	**300,000**	**(25,000)**	**275,000**
Giuliano Sala Tenna	**-**	**-**	**-**

Other transactions and balances with key management personnel

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding partners received $37,248 (2020: $37,510) for tax services provided.

END OF REMUNERATION REPORT (AUDITED)

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the directors of the Company and the Group against legal costs incurred in defending proceedings for conduct other than (a) a willful breach of duty and (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

During the year the Company paid for Directors'& Officers' insurance in the normal course of business, this amount has not been included in Directors remuneration.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

AUDITOR INDEPENDENCE

The Directors have obtained an independence declaration from the Company's auditors, Ernst & Young, as presented on page 22 of this Annual report.

NON-AUDIT SERVICES

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

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

Dalton Gooding
CHAIRMAN

Perth, Western Australia

29 September 2021

AUDITOR'S INDEPENDENCE DECLARATION

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's independence declaration to the directors of Katana Capital Limited

As lead auditor for the audit of the financial report of Katana Capital Limited for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act* 2001 in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Katana Capital Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Fiona Drummond
Partner
Perth

29 September 2021

FD:LC:KAT:038

30 JUNE 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTE	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Revenue			
Dividends		**872**	830
Interest		**3**	18
Other income		**43**	81
Investment income	3	**11,313**	2,858
Total net investment income		**12,231**	3,787
Expenses			
Management fees		**(425)**	(313)
Custody and administration fees		**(107)**	(77)
Insurance fees		**(66)**	(36)
Other expenses		**(279)**	(405)
Listing and registry costs		**(64)**	(70)
Legal, accounting, and professional costs		**(166)**	(172)
Performance fees		**(241)**	(517)
Directors' remuneration expense		**(171)**	(171)
Profit before income tax expense		**10,712**	2,026
Income tax expense	4	**(3,093)**	(455)
Profit for the year attributable to shareholders of the Company		**7,619**	1,571
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year attributable to shareholders of the Company		**7,619**	1,571
Basic and diluted earnings per share (cents per share)	18	**20.54**	3.92

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	AS AT 30 JUNE 2021 $'000	AS AT 30 JUNE 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**5,775**	8,483
Receivables	6	**1,063**	294
Prepaid insurance		**32**	26
Financial assets at fair value through profit or loss	7	**38,751**	30,600
Total current assets		**45,621**	39,403
Non-current assets			
Deferred tax assets	8	**-**	-
Total non-current assets		**-**	-
Total assets		**45,621**	39,403
LIABILITIES			
Current liabilities			
Income tax payable	4	**(1,586)**	-
Payables	9	**(1,164)**	(2,464)
Total current liabilities		**(2,750)**	(2,464)
Non-current liabilities			
Deferred tax liabilities	10	**(1,564)**	(104)
Total non-current liabilities		**(1,564)**	(104)
Total liabilities		**(4,314)**	(2,568)
Net assets		**41,307**	36,835
Equity			
Issued capital	11	**37,233**	39,635
Accumulated losses	12	**-**	(4,829)
Reserves	12	**4,074**	2,029
Total equity		**41,307**	36,835

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	NOTE	ISSUED CAPITAL $'000	PROFITS RESERVES $'000	ACCUMULATED LOSSES $'000	TOTAL $'000
Balance at 1 July 2019		42,341	2,735	(6,400)	**38,676**
Profit for the year		-	-	1,571	**1,571**
Transfer to profits reserve		-	-	-	**-**
Dividends paid		-	(706)	-	**(706)**
Shares issued under Dividend Re-investment Plan		-	-	-	**-**
Issue of shares		-	-	-	**-**
Shares bought back from shareholders		(2,706)	-	-	**(2,706)**
Balance at 30 June 2020	11	39,635	2,029	(4,829)	**36,835**
Balance at 1 July 2020		**39,635**	**2,029**	**(4,829)**	**36,835**
Profit for the year		**-**	**-**	**7,619**	**7,619**
Transfer to profits reserve		**-**	**2,790**	**(2,790)**	**-**
Dividends paid		**-**	**(745)**	**-**	**(745)**
Shares issued under Dividend Re-investment Plan		**-**	**-**	**-**	**-**
Issue of shares		**-**	**-**	**-**	**-**
Shares bought back from shareholders		**(2,402)**	**-**	**-**	**(2,402)**
Balance at 30 June 2021	11	**37,233**	**4,074**	**-**	**41,307**

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

CONSOLIDATED STATEMENT OF CASH FLOW

	NOTE	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Cash flows from operating activities			
Payments for purchases of financial assets		**(70,035)**	(113,174)
Proceeds on sale of financial assets		**71,362**	115,867
Payments to suppliers and employees		**(1,702)**	(1,046)
Interest received		**3**	18
Dividends and distributions received		**795**	799
Tax refund / (paid)		**(47)**	82
Other revenue		**43**	81
Net cash provided by operating activities	15	**419**	2,627
Cash flows from financing activities			
Payments for buyback of shares		**(2,382)**	(2,706)
Dividend paid net of amounts reinvested		**(745)**	(706)
Net cash used in financing activities		**(3,127)**	(3,412)
Net decrease in cash and cash equivalents		**(2,708)**	(785)
Cash and cash equivalents at the beginning of the year		**8,483**	9,268
Cash and cash equivalents at the end of the year	5	**5,775**	8,483
Non-cash activities - Dividend reinvestment		**-**	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The financial report of Katana Capital Limited (the "Company") and its subsidiaries (the "Group" or the "Consolidated Entity") for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the directors on 29 September 2021.

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 Securities Exchange.

The nature of the operations and principal activities are described in the Directors' report. The Company and its subsidiary are for-profit entities.

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 certain financial instruments, which have been measured at fair value.

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

The financial report is presented in Australian dollars.

(b) Statement of compliance

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

New standard adopted as at 1 July 2020

AASB 2018-7 Amendments to AASs – Definition of Material

The amendments align the definition of 'material' across AASB 101 and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are applied prospectively.

Conceptual Framework for Financial Reporting AASB 2019-1 Amendments to AASs – References to the Conceptual Framework

The Conceptual Framework for Financial Reporting (Conceptual Framework) describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to:

> Assist in the development of accounting standards;

> Help preparers develop consistent accounting policies where there is no applicable standard in place; and

> Assist all stakeholders to understand the standards better.

The Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard.

The application of the Conceptual Framework is at present limited to for-profit entities. On the other hand, the Framework for the Preparation and Presentation of Financial Statements (July 2004) (Framework) will continue to apply to not-for-profit entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(b) Statement of compliance - CONTINUED

The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Two exemptions to the application of the Conceptual Framework were provided:

> When developing accounting policies for regulatory account balances using the previous Framework.

Requiring entities to continue applying the previous Framework when developing or revising accounting policies for regulatory account balances prevents unhelpful and unnecessary disruption for both preparers and users. It avoids revising accounting policies for regulatory account balances twice within a short time frame – once for the revised Conceptual Framework and again when a revised standard on rate-regulated activities is issued.

> When applying AASB 3, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the previous Framework, and not the definitions in the revised Conceptual Framework.

In some cases, applying the revised definitions might change which assets and liabilities qualify for recognition in a business combination. As a consequence, post-acquisition accounting required by other standards could lead to immediate derecognition of such assets or liabilities, causing 'day 2 gains or losses' to arise, which do not depict economic gains or losses. The IASB has since assessed how IFRS 3 can be updated for the revised definitions, without these unintended consequences.

The Group has adopted all new and revised Standards that are effective for these financial statements. The adoption of the new or amended standards and interpretations did not result in any significant changes to the Group's accounting policies

Accounting standards and interpretations issued but not yet effective

AASB 2021-5 Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 July 2023)

AASB 112 Income Taxes requires entities to account for income tax consequences when economic transactions take place, and not at the time when income tax payments or recoveries are made. Accounting for such tax consequences, means entities need to consider the differences between the tax rules and the accounting standards. These differences could either be:

> Permanent – e.g., when tax rules do not allow a certain expense to ever be deducted; or

> Temporary – e.g., when tax rules treat an item of income as taxable in a period later than when included in the accounting profit.

Deferred taxes representing amounts of income tax payable or recoverable in the future must be recognised on temporary differences unless prohibited by AASB 112 in certain circumstances. One of these circumstances, known as the initial recognition exception, applies when a transaction affects neither accounting profit nor taxable profit, and is not a business combination. Views differ about applying this exception to transactions that, on initial recognition, create both an asset and liability (and could give rise to equal amounts of taxable and deductible temporary differences) such as:

> Recognising a right-of-use asset and a lease liability when commencing a lease

> Recognising decommissioning, restoration and similar liabilities with corresponding amounts included in the cost of the related asset

Some entities have previously recognised deferred tax consequences for these types of transactions, having concluded that they did not qualify for the initial recognition exception. The amendments to AASB 112 clarify that the exception would not normally apply. That is, the scope of this exception has been narrowed such that it no longer applies to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The amendments to AASB 112:

> Apply to transactions that occur on or after the beginning of the earliest comparative period presented; and

> Require entities to also recognise deferred tax for all temporary differences related to leases, decommissioning, restoration and similar liabilities at the beginning of the earliest comparative period presented.

The cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

AASB 1 First-time Adoption of Australian Accounting Standards was amended to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exception set out in AASB 112.

Earlier application of the amendments is permitted.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(b) Statement of compliance - CONTINUED

AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current (Effective on 1 July 2023)

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. Specifically:

> The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

> Management intention or expectation does not affect classification of liabilities.

> In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

These amendments are applied retrospectively. Earlier application is permitted.

AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates (Effective 1 July 2023)

An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information.

The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively.

The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

> For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.

> In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

The amendments are applied prospectively. Earlier application is permitted.

The Group is yet to assess the impact of the adoption of these standards and amendments on the financial statements and has not elected to early adopt any new standards or amendments that are issued but not yet effective

(c) Principle of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2021. Control is achieved when the Group is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group ceases to control the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(c) Principle of consolidation - CONTINUED

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(d) Investments and other financial assets

Financial assets are classified as either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 July 2018 and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

Trade receivable 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.

Trade receivable (without a significant financing component) is initially recognized at their transaction price and all other receivables are initially measured at fair value. Receivables are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model with the objective to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of the assessment whether contractual cash flows are solely payments of principal and interest, 'principal" is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable ate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Investments and other financial assets - CONTINUED

For all other receivables measured at amortised cost, the Group recognized lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If on the other hand the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to expected credit losses within the next 12 months.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

(e) Other income recognition

(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 and distributions

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

(f) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences between the carrying amount and tax losses to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Group 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 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 statement of financial position may comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(h) Trade and other payables

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

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.

Management fees, including performance fees, are calculated in accordance with the contractual arrangements and are payable in the year in which the returns are generated.

(i) 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 Group from the ATO are recognised as receivables in the statement of financial position.

Cash flows are included in the statement of cash flow 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.

(j) Earnings per share

Basic earnings per share (EPS) are calculated as net profit attributable to shareholders divided by the weighted average number of shares. Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

> costs of servicing equity (other than dividends) and preference share dividends;

> other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

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

(k) Derivative financial instruments

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

Any gains or losses arising from changes in the fair value of derivatives are taken directly to net profit or loss for the year.

Exchange traded options

From time to time, the Group writes and then trades Exchange Traded Options ('ETO's'), the Group's policy for managing its risk for ETO's is to ensure it only writes ETO's against shares that it physically holds. 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.

(l) 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.

(m) Pension benefits

Defined contribution plan

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

(n) Parent entity financial information

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(o) Segment reporting

Operating segment are reporting in a manner consistent with internal reporting provided to the Board of Directors. The Board of Directors is the Chief Operating Decision Maker (CODM) and monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

(p) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

The Company's significant accounting estimates and judgements include fair value measurement of financial assets and liabilities that are not traded in an active market.

Details on the determination of fair value are provided in Note 16(h).

3 INVESTMENT INCOME

	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Realised gains on financial assets at fair value through profit or loss	**6,378**	3,413
Unrealised gains/(losses) on financial assets at fair value through profit or loss	**4,935**	(555)
Total income	**11,313**	2,858

4 INCOME TAX EXPENSE

		YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
(a)	**Income tax expense**		
	Total income tax expense results in a:		
	Current tax expense	**1,633**	-
	Change in deferred tax liability	**899**	(114)
	Change in deferred tax asset	**561**	569
		3,093	455
(b)	**Deferred tax asset recognised through equity**		
	Prior year under/(over)	**-**	-
		-	-
(c)	**Reconciliation of income tax expense to prima facie tax payable**		
	Prima facie income tax expense calculated at 30%	**3,213**	608
	Less the tax effect of:		
	Imputation credit gross up	**60**	66
	Franking credit offset	**(200)**	(219)
	Non-deductible expenditure	**20**	-
		3,093	455
(d)	**Income tax receivable / (payable)**		
	Balance at 1 July	**-**	82
	Current tax expense	**(1,633)**	-
	Payments made / (refunds received) during the year	**47**	(82)
		(1,586)	-

5 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Cash at banks	**5,775**	8,483

6 CURRENT ASSETS - RECEIVABLES

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Other receivables	**148**	108
Unsettled trades receivable	**915**	186
Total	**1,063**	294

There are no receivables past due or impaired.

Due to the short-term nature of these receivables, their carrying value approximates their fair value.

7 CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Investment in listed equities	**35,669**	27,116
Investment in unlisted equities	**-**	-
Investments in certificates of deposit	**824**	707
Investment in listed unit trusts	**2,258**	2,777
Total financial assets at fair value through profit or loss	**38,751**	30,600

The above investments consist primarily of investments in ordinary shares and therefore have no fixed maturity date or coupon rate. For fair value measurements refer to Note 16(h).

8 NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Investments and unsettled shares	**230**	544
Provisions	**118**	194
Tax Losses	**-**	173
Other	**4**	2
	352	913
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 10)	**(352)**	(913)
Net deferred tax assets	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 CURRENT LIABILITIES - PAYABLES

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Unsettled trades payable	**769**	1,813
Management fees	**134**	98
Performance fee payable	**241**	517
Other payables	**20**	36
	1,164	2,464

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

10 NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
The balance comprises temporary differences attributable to:		
Investments and unsettled shares	**1,858**	999
Dividends receivable	**41**	18
Other	**17**	-
	1,916	1,017
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 8)	**(352)**	(913)
Net deferred tax liabilities	**1,564**	104

11 ISSUED CAPITAL

	30 JUNE 2021 NO. OF SHARES	30 JUNE 2021 $'000	30 JUNE 2020 NO. OF SHARES	30 JUNE 2020 $'000
Issued and paid up capital - Ordinary shares	**35,629,062**	**37,233**	38,275,174	39,635

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

DATE	DETAILS	NO. OF SHARES	$'000
01 July 2019	Opening balance	41,739,670	42,341
	Shares bought back from shareholders, net of Dividend Re-investment Plan	(3,464,496)	(2,706)
30 June 2020	Closing balance	**38,275,174**	**39,635**
01 July 2020	Opening balance	**38,275,174**	**39,635**
	Shares bought back from shareholders, net of Dividend Re-investment Plan	**(2,646,112)**	**(2,402)**
30 June 2021	Closing balance	**35,629,062**	**37,233**

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

During the period from 1 July 2020 to 30 June 2021, 2,646,112 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.91 with the price ranging from $0.79 to $1.02 per share.

The Company has a dividend reinvestment plan (DRP) for its dividend distribution, which shareholders have the discretion to join or exit. The DRP shares are managed via an on-market buy-back of shares that are then re-distributed to shareholders. During the year as part of the DRP the Company issued nil new shares to meet the DRP shortfall for buy-back shares acquired on-market.

11 ISSUED CAPITAL - CONTINUED

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. Management is constantly adjusting the capital structure to take advantage of favorable costs of capital or high returns on assets. The Group defines its capital as the total funds under management, being $45,620,539 at 30 June 2021 (30 June 2020: $39,402,541), including equities and cash reserves. The Group does not have any additional externally imposed capital requirements however has as a goal the ability to continue to grow assets under management and maintain a sustainable dividend return to shareholders. To assist with meeting its internal guidelines, Katana Asset Management Limited holds regular Investment Committee meetings to assess the equity portfolio.

12 RESERVES AND ACCUMULATED LOSSES

(a) Profit reserve

The profit reserve is made up of amounts allocated from retained earnings / (accumulated losses) that are preserved for future dividend payments.

Movement in profit reserve was as follows:

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Opening balance	**2,029**	2,735
Transfer from retained earnings	**2,790**	-
Dividends paid	**(745)**	(706)
Balance at the end of the year	**4,074**	2,029

(b) Accumulated losses

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Balance at the beginning of the year	**(4,829)**	(6,400)
Profit for the year attributable to the members of the company	**7,619**	1,571
Transfer to profits reserve	**(2,790)**	-
Transfer from options reserve	**-**	-
Balance at the end of the year	**-**	(4,829)

13 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Short-term employee benefits		
Director fees	**150**	150
Post-employment benefits	**14**	14
	164	164

14 RELATED PARTY TRANSACTIONS

(a) Directors

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

(b) Related party transactions

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

Related parties during the year are outlined below:

Director related:

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding Partners received $37,248 (2020: $37,510) for tax services provided.

Other Key management services - Katana Asset Management Ltd:

Katana Asset Management Ltd, the Fund Manager for the Group, provides the Group with Key Management Services. The directors of Katana Asset Management Ltd are Brad Shallard and Romano Sala Tenna.

Katana Capital incurred management fees of $425,306 to the Fund Manager for management services provided during the year (2020: $313,312). There was performance fee of $240,897 due to the Fund Manager for the year (2020: $517,326). The Fund Manager and its directors have the following shareholdings:

2021 NAME	BALANCE AT THE START OF THE YEAR	CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Brad Shallard	**4,655,920**	**81,081**	**4,737,001**
Romano Sala Tenna	**5,519,311**	**90,065**	**5,609,376**

2020 NAME	BALANCE AT THE START OF THE YEAR	CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Brad Shallard	4,557,503	98,417	4,655,920
Romano Sala Tenna	5,350,180	169,131	5,519,311

Wholly owned group transactions

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

15 RECONCILIATION OF PROFIT AFTER INCOME TAX TO CASH INFLOW FROM OPERATING ACTIVITIES

	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Profit for the year attributable to shareholders after tax	**7,619**	1,571
Adjustments for:		
Change in financial assets held for trading	**(8,151)**	(1,531)
(Increase)/decrease in trade and other receivables	**(775)**	69
(Increase)/ decrease in deferred tax assets	**561**	351
(Decrease)/increase in trade and other payables	**(1,320)**	1,981
Increase in deferred tax liabilities	**899**	104
Increase in current tax liabilities	**1,586**	82
Net cash provided by operating activities	**419**	2,627

16 FINANCIAL RISK MANAGEMENT

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

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

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.

(a) Mandate

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

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

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

(i) listed securities;

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

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

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

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

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

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

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

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

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

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

The Mandate specifies the following risk control features:

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

> no investment may represent more than 10% of the issued securities of a company at the time of investment.

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

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

(b) Portfolio composition and management

The aim of the Fund Manager is to build for the Group a portfolio of 20 to 60 companies, with an emphasis towards holding a larger number of smaller positions. Under the current Mandate, the 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 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, allows the Fund Manager the flexibility to implement an absolute return strategy. It should also be noted that, despite the focus on emerging and green chip companies, in periods of overly negative market of stock sentiment, the best investment opportunities on a risk return basis are often found in the ASX S&P Index top 20 and ASX S&P Index top 100 stocks by market capitalisation. Often the larger stocks rebound first, hence providing not just safer returns, but quicker returns.

16 FINANCIAL RISK MANAGEMENT - CONTINUED

(b) Portfolio composition and management - CONTINUED

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	1.0%	5.0%	12.5%
ASX S&P Top 100/Cash Hybrids	1.0%	3.0%	10.0%
ASX S&P Top 500	No Minimum	2.0%	7.5%
Outside of ASX S&P Top 500/Other Instruments	No Minimum	1.0%	5.0%

(c) Asset allocation

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

> global economy;
> Australian economy and positioning within the economic cycle;
> sectors within the Australian market;
> phase of the interest rate cycle; and
> state of the property market (e.g. comparative investment merit).

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

(d) Market risk

Market risk is the risk that changes in foreign exchange rates, interest rates and prices will affect the Group income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Price risk

The Group is exposed to equity securities, convertible notes and derivative securities price risk. This arises from investments held by the Group for which prices in the future are uncertain. The paragraph below sets out how this component of price risk is managed and measured.

Investments are classified in the statement of financial position as financial assets at fair value through profit/loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

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

The table on page 41 summarises the impact of an increase/decrease in the Australian Securities Exchange All Ordinaries Index on the Group's net assets attributable to shareholders at 30 June 2021. The analysis is based on the assumptions that the index increased/decreased by 10% (2020: 10%) with all other variables held constant and that the fair value of the Group'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 with combined value of $38,750,360 (2020: $30,600,188) that represented the maximum exposure as at reporting date.

(ii) Foreign exchange risk

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

(iii) Interest rate risk

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

16 FINANCIAL RISK MANAGEMENT - CONTINUED

(d) Market risk - CONTINUED

(iii) Interest rate risk - CONTINUED

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

	WEIGHTED AVERAGE INTEREST RATE (% P.A.)	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Financial Assets			
Cash and short term deposits - floating	0.95%	**5,775**	8,483

The table in (e) below summarises the impact of an increase/decrease of interest rates on the Group'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 (2020: +/- 50 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the interest rates of fixed interest securities.

(e) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's operating profit and other comprehensive income to interest rate risk and other price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Group 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 Group invest. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

PRICE RISK

	-10%	10%	-10%	10%
	IMPACT ON OPERATING PROFIT		IMPACT ON OTHER COMPREHENSIVE INCOME	
30 June 2021	**(3,875)**	**3,875**	**-**	**-**
30 June 2020	(3,060)	3,060	-	-

INTEREST RATE RISK

	"-50BPS"	"+50BPS"	"-50BPS"	"+50BPS"
	IMPACT ON OPERATING PROFIT		IMPACT ON OTHER COMPREHENSIVE INCOME	
30 June 2021	**(29)**	**29**	**-**	**-**
30 June 2020	(42)	42	-	-

(f) Credit risk

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

As at 30 June 2021 the Group does not hold any debt securities (30 June 2020: nil).

The Group does trade in Exchange Traded Options ("ETO's"). 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 2021 the Group held no Exchange Traded Options (30 June 2020: nil).

Compliance with the Group'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, which has a credit rating of A-1, which is the significant concentration risk.

16 FINANCIAL RISK MANAGEMENT - CONTINUED

(g) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

To control liquidity, the Group invests in financial instruments which under normal market conditions are readily convertible to cash. The Group held no derivatives (ETO's), as at 30 June 2021 (30 June 2020: $nil).

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

(h) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

(a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Level 2 - valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(c) Level 3 - valuation technique for which the lowest level input that is significant to the fair value movement that is not observable.

For instruments for which there is currently no active market, the Company uses valuation methods generally accepted in the industry. Some of the inputs to those method may not be market observable and are therefore estimated based on assumptions. In the case of unlisted equities, recent transactional evidence has been obtained that supported current valuation. If, in the future, similar transactions occur at significantly different values, the fair value of unlisted equities will be revised appropriately.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table presents the Company's assets and liabilities measured and recognised at fair value at reporting date.

30 JUNE 2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$'000	$'000	$'000	$'000
Financial assets				
Investment in listed equities	**35,669**	**-**	**-**	**35,669**
Investments in certificates of deposit	**824**	**-**	**-**	**824**
Investment in unit trusts	**2,258**	**-**	**-**	**2,258**
Total financial assets designated at fair value through profit or loss	**38,751**	**-**	**-**	**38,751**

30 JUNE 2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$'000	$'000	$'000	$'000
Financial assets				
Investment in listed equities	27,116	-	-	27,116
Investments in certificates of deposit	707	-	-	707
Investment in unit trusts	2,777	-	-	2,777
Total financial assets designated at fair value through profit or loss	30,600	-	-	30,600

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

The fair value of financial instruments that are not traded in an active market (for example, unlisted investments) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. In determining the fair value of the securities the company holds in the unlisted investments, the company referred to the Net Tangible Assets of the investee, recent trading in units of the investment and all other market factors associated with the unlisted investment.

16 FINANCIAL RISK MANAGEMENT - CONTINUED

(h) Fair value measurements - CONTINUED

Financial assets at fair value through profit or loss are dependent on the change of input variables used to determine fair value, namely changes in market prices of equity securities. The majority of the investments are invested in shares of companies listed on the Australian Stock Exchange which are valued based on market observable information.

There were no transfers between level 1 and level 2 during the year.

There were no transfers of level 3 instruments for the year ended 30 June 2021 (2020: $nil). The fair values of the investment in unlisted entities have been estimated using the redemption prices as at reporting date.

17 SEGMENT REPORTING

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

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

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

18 EARNINGS PER SHARE

(a) Basic earnings per share:

	YEAR ENDED 30 JUNE 2021	YEAR ENDED 30 JUNE 2020
	CENTS	CENTS
Basic and diluted earnings per share	**20.54**	3.92

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

	YEAR ENDED 30 JUNE 2021	YEAR ENDED 30 JUNE 2020
	$'000	$'000
Profit from continuing operations	**7,619**	1,571
Profit attributable to the ordinary equity holders of the Company used in the calculation of basic and diluted earnings per share	**7,619**	1,571

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

	YEAR ENDED 30 JUNE 2021	YEAR ENDED 30 JUNE 2020
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**37,085,506**	40,015,890
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	**37,085,506**	40,015,890

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.

19 EVENTS OCCURRING AFTER REPORTING DATE

Other than the events below, the directors are not aware of any matter or circumstance that has significantly or may significantly affect the operations of the company or the results of those operations, or the state of affairs of the company in subsequent financial years.

On 5 July 2021, the company announced a fully franked 0.5 cent per share dividend.

20 REMUNERATION OF AUDITORS

	YEAR ENDED 30 JUNE 2021 $	YEAR ENDED 30 JUNE 2020 $
(a) Audit Services		
E&Y Australia		
Audit and review of financial reports	**41,350**	40,500
Total	**41,350**	40,500
(b) Non-Audit Services		
Other services	**5,000**	-
	46,350	40,500

21 DIVIDENDS

PARENT ENTITY

		YEAR ENDED 30 JUNE 2021	YEAR ENDED 30 JUNE 2020
Dividends paid during 1st Quarter of the year	Total paid ($'000)	**191**	208
	Cents per share	**0.5 cents**	0.5 cents
Dividends paid during 2nd Quarter of the year	Total paid ($'000)	**189**	203
	Cents per share	**0.5 cents**	0.5 cents
Dividends paid during 3rd Quarter of the year	Total paid ($'000)	**183**	295
	Cents per share	**0.5 cents**	0.75 cents
Dividends paid during 4th Quarter of the year	Total paid ($'000)	**182**	-
	Cents per share	**0.5 cents**	-
	Total paid ($'000)	**745**	706

	30 JUNE 2021 $'000	30 JUNE 2020 $'000
Franking credits available for subsequent financial years based on tax rate of 30% (2020: 30%)	**1,844**	338

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

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

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

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

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

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

22 PARENT ENTITY FINANCIAL INFORMATION

PARENT ENTITY

	AS AT 30 JUNE 2021 $'000	AS AT 30 JUNE 2020 $'000
Assets	**45,621**	39,403
Liabilities	**4,314**	2,568
Net Assets	**41,307**	36,835
Equity	**41,307**	36,835
	-	-

	YEAR ENDED 30 JUNE 2021 $'000	YEAR ENDED 30 JUNE 2020 $'000
Profit for the year	**7,619**	1,571
Total comprehensive income for the year	**7,619**	1,571

Investment in controlled entity at cost

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

Tax consolidation legislation

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

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

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

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

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

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

23 COMMITMENTS AND CONTINGENCIES

There are no outstanding contingent liabilities or commitments as at 30 June 2021 (30 June 2020: Nil).

DIRECTORS' DECLARATION

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

(a) The financial statements and notes of the consolidated entity set out on pages 23 to 45 are in accordance with the *Corporations Act 2001*, including

(i) Giving a true and fair view of the financial position as at 30 June 2021 and of its performance for the year ended on that date of the consolidated entity.

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2011;

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

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

(d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2011 for the financial year ended 30 June 2021.

On behalf of the Board Katana Capital Limited

Dalton Gooding
CHAIRMAN

29 September 2021

Perth, Western Australia

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Katana Capital Limited (the Company) and its subsidiary (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

FD:LC:KAT:037

Building a better working world

1. Investment valuation

Why significant	How our audit addressed the key audit matter
The Group has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2021, the value of these financial assets, as set out in Note 7 of the financial report, was $38.8 million, which represents 85% of the total assets held by the Group at that date. The Group's accounting policy, described in Note 2(d) of the financial report, recognises these financial assets at fair value through profit or loss in accordance with Australian Accounting Standards. Volatility and other market drivers can have a significant impact on the value of these financial assets; therefore, valuation of the investment portfolio was considered a key audit matter.	We assessed the fair value of significant investments in the portfolio held at 30 June 2021 by reference to independent pricing sources. We assessed the adequacy of the associated disclosures in Note 7 of the financial report.

2. Management and performance fees

Why significant	How our audit addressed the key audit matter
Management and performance fees paid to the investment manager, Katana Asset Management Ltd, are significant expenses to the Group. For the year ended 30 June 2021, management and performance fees totalled $0.67 million which represents 44% of total expenses. The Group's accounting policy for management and performance fees is described in Note 2(h) of the financial report. All expenses are recognised on an accrual basis, with performance fees recognised in the financial report if the performance hurdles for the Group have been met at the end of the relevant measurement period, which is the date where certainty exists that the criteria has been met and the liability has been crystallised. The quantum of these expenses and the impact that the volatility in the market prices of investments can have on the recognition and payment of performance fees resulted in this being a key audit matter. The disclosure of these amounts is included in Note 14(b) of the financial report.	We assessed the Group's performance fee eligibility calculations. We recalculated management and performance fees in accordance with contractual arrangements, assessing whether contract rates were correctly applied. We tested the inputs to the performance fee calculation by ensuring the key inputs were consistent with the financial report. We assessed the adequacy of the disclosures in Note 14(b) of the financial report.

Building a better working world

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Building a better working world

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 16 to 20 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Katana Capital Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

Fiona Drummond
Partner
Perth

29 September 2021

ADDITIONAL ASX INFORMATION

Net tangible assets per security

	30 JUNE 2021	30 JUNE 2020
Net tangible asset backing per ordinary security (after tax and provision)	**$1.160**	$0.962

Ordinary Fully Paid Shares - AS AT 16 AUGUST 2021

Range of Units

RANGE	TOTAL HOLDERS	UNITS	% UNITS
1-1,000	79	16,755	0.05
1,001-5,000	37	111,003	0.31
5,001-10,000	35	300,407	0.84
10,001-100,000	115	4,647,613	13.05
100,001 Over	56	30,546,862	85.75
Rounding			
Total	**322**	**35,622,640**	**100.00**

Unmarketable Parcels

	MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum $ 500.00 parcel at $ 1.0700 per unit	468	59	3,213

Top 20 Shareholders - AS AT 16 AUGUST 2021

RANK	NAME	UNITS	% OF UNITS
1	WONDER HOLDINGS PTY LTD	2,518,139	7.07
2	KATANA ASSET MANAGEMENT LTD	2,343,785	6.58
3	CLASSIC CAPITAL PTY LTD <BRL UNIT A/C>	2,043,700	5.74
4	JOVE PTY LTD	1,529,382	4.29
5	MR ROMANO SALA TENNA + MRS LINDA SALA TENNA <THE SALA TENNA SUPER A/C>	1,400,796	3.93
6	MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL <THE SHALLARD SUPER FUND A/C>	1,399,865	3.93
7	BS CAPITAL PTY LTD <THE SHALLARD FAMILY A/C>	1,260,923	3.54
8	PULO RD PTY LTD <PULO RD SUPER FUND A/C>	1,204,400	3.38
9	MRS LINDA SALA TENNA	902,831	2.53
10	AUXILIUM CAPITAL PTY LTD <SALATENNA FAMILY CHARITY A/C>	887,278	2.49
11	MR RONALD WILLIAM JAMES + MRS ELIZABETH JANET JAMES	830,000	2.33
12	CAMBO INVESTMENTS PTY LTD	775,816	2.18
13	COLLORI PTY LTD <ELLSEE INVESTMENT A/C>	756,566	2.12
14	MR MARK JOHN BAHEN + MRS MARGARET PATRICIA BAHEN <SUPERANNUATION ACCOUNT>	750,000	2.11
15	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	700,000	1.97
16	METHUEN HOLDINGS PTY LTD <THE PB FAMILY A/C>	655,910	1.84
17	BLU BONE PTY LTD	612,895	1.72
18	MRS ELSIE DA SILVA	530,706	1.49
19	KEFIR PTY LTD <SNOWBALL SUPER FUND A/C>	500,000	1.40
20	WFF PTY LTD <WHEATLEY FAMILY FNDN A/C>	473,288	1.33
Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**22,076,280**	**61.97**

Substantial Shareholders - AS AT 16 AUGUST 2021

NAME	SHARES	% OF SHARES
Brad Shallard	4,784,217	13,46%
Romano Sala Tenna	5,661,823	15.93%

ADDITIONAL ASX REPORTING

(a) List of Investments Held as at 30 June 2021

Katana Investment Portfolio

AERIS RESOURCES ORD
AMP ORD
APOLLO CONSOLIDATED ORD
AUCKLAND INTERNATIONAL AIRPORT ORD
AUSTRALIA NEW ZEALAND BANKING ORD
AUSTRALIAN CLINICAL LABS ORD
BANK OF QUEENSLAND ORD
BEACH ENERGY ORD
BELL FINANCIAL GROUP ORD
BETASHARES AUSTRALIAN HIGH ETF
COMMONWEALTH BANK OF AUSTRALIA ORD
CORONADO GLOBAL RESOURCES CDI
CSL ORD
CSR ORD
CYPRIUM METALS ORD
DOWNER EDI ORD
ELDERS ORD
EMECO HOLDINGS ORD
EMERCHANTS ORD
GENMIN ORD
GENUSPLUS GROUP ORD
GOODMAN GROUP UNT
HARVEY NORMAN HOLDINGS ORD
HEALIUS ORD
HELLOWORLD ORD
INCITEC PIVOT ORD
INDEPENDENCE GROUP ORD
INGENIA COMMUNITIES UNT
INSURANCE AUSTRALIA GROUP ORD
KAROON GAS AUSTRALIA ORD
KINA SECURITIES ORD
KINGSGATE CONSOLIDATED ORD
MACH7 TECHNOLOGIES ORD
MACQUARIE GROUP ORD
MINCOR RESOURCES ORD
MINERAL RESOURCES ORD
NATIONAL AUSTRALIA BANK ORD
NEXTDC ORD
NITRO SOFTWARE ORD
NORTHERN STAR RESOURCES ORD
ONCOSIL MEDICAL ORD
ORIGIN ENERGY ORD
OZ MINERALS ORD
PENDAL GROUP ORD
PENTANET ORD
PERPETUAL ORD
QANTM INTELLECTUAL PROPERTY ORD
RAMSAY HEALTH CARE ORD
REGIS RESOURCES ORD
RESOLUTE MINING ORD
SEVEN GROUP HOLDINGS ORD
SEVEN WEST MEDIA ORD
SONIC HEALTHCARE ORD
SOUTH32 ORD G
SYDNEY AIRPORT UNT
UNIBAIL-RODAMCO-WESTFIELD CDI
UNITI GROUP ORD
VANECK VECTORS GLOBAL CLEAN ENEY ETF
VANECK VECTORS MSCI INTERNATION ETF
VICINITY CENTRES RES
WESFARMERS ORD
WESTPAC BANKING CORPORATION ORD
WOODSIDE PETROLEUM ORD
WOOLWORTHS ORD
WORLEYPARSONS ORD

(b) Total Number of Transactions during the report period

Total number of transactions during the 12 months to 30 June 2021 was 790 with brokerage fees of $299,520.

(c) Total Management Fees Paid or Accrued and Summary of Agreement

Please refer to disclosure made in Remuneration Report.

(d) Corporate Governance Statement

Please refer to **www.katanaasset.com**

KATANA
CAPITAL LIMITED

www.katanaasset.com