

# 2022

ANNUAL  
REPORT



**KATANA**  
CAPITAL LIMITED

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## CORPORATE DIRECTORY

**Katana Capital Limited**  
ABN 56 116 054 301

### Board of Directors

**Mr Dalton Gooding**  
Chairman, Non-Executive Director

**Mr Ben Laird**  
Non-Executive Director

**Mr Giuliano Sala Tenna**  
Non-Executive Director

**Mr Baden Bowen**  
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.

# INVESTMENT REPORT

The Manager is pleased to announce the fund generated a gross investment return of POSITIVE 1.13% versus a loss of -11.06% for the All Ordinaries index.

This is an outstanding result and represents a gross investment out-performance of

+12.19%

## 2022 FINANCIAL YEAR REVIEW

Financial year 2022 proved to be yet another volatile year for equity markets with a bout of macroeconomic and geopolitical developments. This year's events can best be summarised by the fact we started the year at one economic extreme and ended at the other. We moved from record low interest rates, supportive government stimulus, and near record high business and consumer confidence, to an overheated inflationary environment, with central banks aggressively tightening, confidence falling and the possibility of a recession. We also saw a reversal in sector performance. *Technology* fueled by low rates has been the standout over the past two years, but fell by 35% during FY22. *Energy* was the biggest laggard in FY20 and the second biggest in FY21, but rebounded to post the largest gain in FY22.

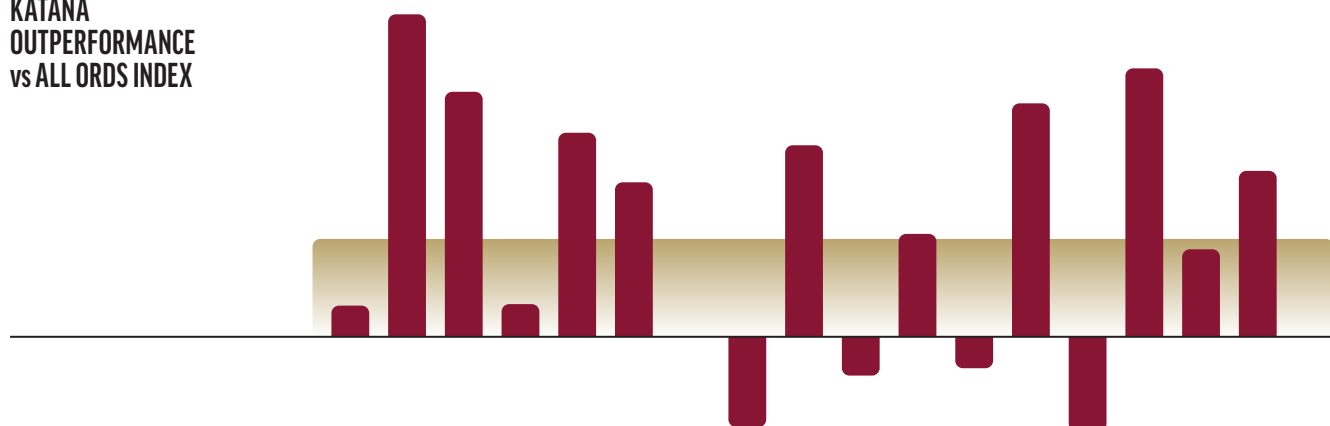
The first part of the year was dominated by discussion as to whether rising costs were transitory - driven by temporary supply chain and bottleneck issues - or if we were indeed seeing the early signs of inflation. The Manager viewed rising costs as more than transitory; a demand element was present driven by record low rates, excess savings and pent-up demand. We wrote from March 2021 that inflation is likely to keep rising and at some point bond yields will need to rise in response. Accordingly, we started the year with overweight positions in *Materials* and *Energy*, which have historically outperformed in an inflationary environment.

We also moved underweight long duration and high PER (price to earnings ratio) stocks in *Technology*, *Healthcare* and *Staples*, on the premise rising bond yields would put pressure on valuations.

In the first half our viewpoint got continuously tested. In July bond yields broke through support and fell roughly 60 basis points from their peak. We wrote at the time that it appeared nonsensical as inflation is clearly on the rise with the US headline rate touching 5% (a 13 year high). Just two months later *Technology* stocks rallied more than 10% from their lows, once again outperforming the market. This again tested our thinking, with many turning to the sector as being potentially immune to inflation due to their low input costs. We considered this but held our nerve and saw valuation risk from rising yields as the longer-term driver.

In November the highly infectious Omicron variant started to spread particularly in the US, Europe and China. At the same time the US Government announced they would commence releasing oil reserves when prices first reached US\$80/bbl. The potential demand destruction from new Omicron restrictions, and increased supply from reserves saw our local energy sector drop over 8% for the month, or 17% from the prior month's peak. We viewed the impacts of Omicron and oil reserves as transitory and maintained our overweight position. Fundamentally there was still sizeable underinvestment in oil and gas projects,

### KATANA OUTPERFORMANCE vs ALL ORDS INDEX



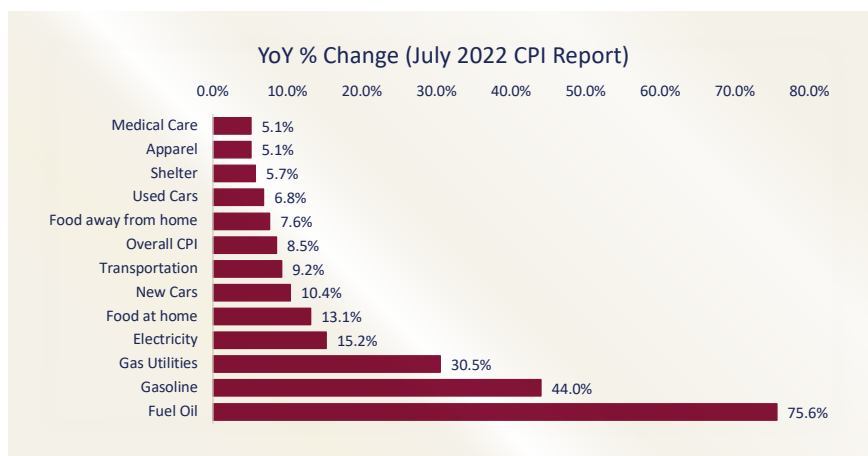
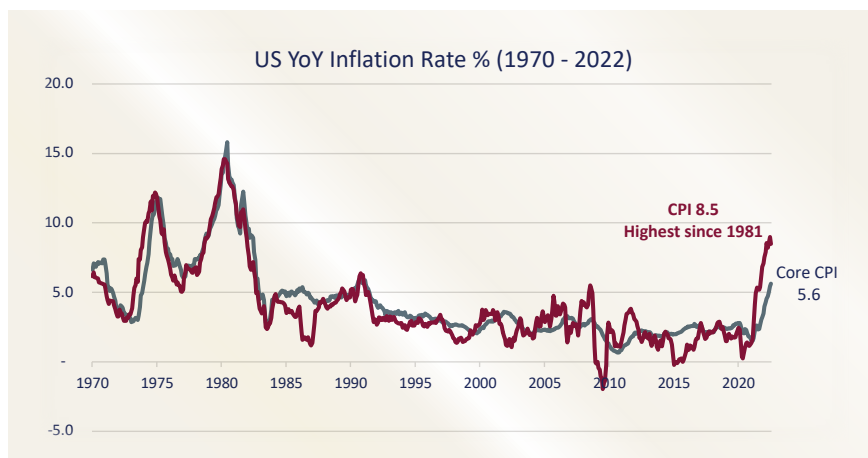
YEAR ENDING		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	AVERAGE
Katana Gross Investment Return	%	9.20	49.05	-6.41	-23.57	24.54	19.10	-11.19	8.84	26.78	-1.57	4.98	6.23	26.27	-0.43	9.30	32.82	1.13	10.30
All Ords Index	%	6.91	25.36	-15.49	-25.97	9.55	7.75	-11.25	15.47	12.70	1.28	-2.58	8.54	9.12	6.51	-10.42	26.39	-11.06	3.11
<b>Outperformance</b>	<b>%</b>	<b>2.29</b>	<b>23.69</b>	<b>9.08</b>	<b>2.40</b>	<b>14.99</b>	<b>11.35</b>	<b>0.07</b>	<b>-6.63</b>	<b>14.07</b>	<b>-2.85</b>	<b>7.56</b>	<b>-2.31</b>	<b>17.15</b>	<b>-6.94</b>	<b>19.72</b>	<b>6.43</b>	<b>12.19</b>	<b>7.19</b>

Past performance is no guarantee of future performance.

and stock prices still materially lagged the recovery in the underlying commodity. This positioning was ultimately vindicated as the sector climbed more than 30% over the coming months.

Oil moved over US\$100/bbl in February 2022 following news of Russia's invasion of Ukraine. This impacted many commodities in addition to Oil including LNG, and wheat, with Russia and Ukraine collectively accounting for in excess of a quarter of global wheat exports. We increased our cash weighting to the highest level year to date during the violent 11% sell off in January, which we maintained as rumors of the invasion escalated. We also maintained our overweight exposures in energy and other commodities, as we finally saw our theme for the past year gain traction.

The war perhaps put the nail in the coffin for those still clinging to the transitory viewpoint. Soaring energy prices (particularly in Europe who rely heavily on Russia for energy), rising transport costs, and further food inflation, saw extraordinary price increases YoY (see charts to the right).



# INVESTMENT REPORT

January proved to be a pivotal moment for markets with Fed commentary that they were “now open to the possibility of raising rates”. This was the trigger many needed to accept inflation was ‘out of control’, rising costs weren’t simply transitory, and central banks might be forced into an aggressive tightening cycle. This saw US 10 Year Bond Yields spike 18% and created panic in long duration and high PER sectors. The All Ords entered a technical correction falling over 10% for the month. In particular *Technology* fell 18%, *Healthcare* 12% and *Staples* 9%. Having written about the need for bond yields to rise, and our cautious stance against these sectors since March 2021, we were well positioned for this move but further increased our cash weighting to protect against the volatility.

By April, bond yields had risen above 3% which we viewed as having three broad impacts, all 3 of which exert downward pressure on equity performance:

- Valuation on long duration assets needed to retrace
- The rising cost of borrowing would impact company earnings
- Cash yields would provide a ‘real’ alternative to equities.

Our focus shifted to what sectors perform best in a rising rates environment. The fund started building exposure to more defensive holdings in *Healthcare* and *Telecommunications*, and reduced exposure in individual names lacking pricing power, or excessively impacted by rising input costs. The fund remained underweight banks.

Our initial thinking was rising rates would benefit lenders and support their Net Interest Margins (NIM). But studying previous tightening cycles confirmed banks almost always enter an earnings downgrade cycle. As rates rise the economy slows which is bad for lending volume and bad debt provisioning. This thinking ultimately proved correct as the major banks continued to fall (17% to the time of this report) from the commencement of the RBA tightening cycle.

Heading into the final months of the year investors became fixated on inflation prints as a guide to how aggressive rates would rise and the possible duration of the cycle. Many were hopeful for a controlled tightening cycle, as an aggressive cycle is a worst case for equity markets and often leads to a recession. The May US CPI print released in June triggered a second violent sell off in equities.

Inflation rose to 8.6%, the highest since 1981 and above estimates of 8.3%. The All Ords fell by around 11% for the month and ~16% from its April Peak. However, the index held up better than the S&P 500 which officially entered a bear market down over 20% from its March peak, and the Nasdaq which was down over 30% from its peak in December.

This became another pivotal moment with many leading indicators now pointing to a recession in the US. All but two bear markets (post WW2) have been followed by a recession. Recessions were almost always preceded by a tightening cycle (currently underway), and the US 10 Year/2 Year yield curve inverted which historically has a high probability of predicting a recession.

The transition from inflation to recession seems subtle, but it has profound impacts. *Materials* and *Energy* which are the top performers in inflation, become the worst performers in a recession as demand for everything from copper to oil collapses. We acknowledged that the violent move in June wasn’t normal, it will pass, and our cash weighting provided protection. Nevertheless, we began reducing exposure in *Materials* and *Energy* and added to defensive names.

## ALL ORDINARIES 2022 – TWO KEY PIVOTS



The Manager remains committed to maintaining a low risk diversified portfolio, with a strong focus on capital preservation and long-term compounding. Consistent with previous years, the fund held an average of 59 individual stock positions throughout the year, and it remains particularly rare for any position to exceed 5% of the portfolio.

## OUTLOOK

The speed with which markets are pivoting is difficult to comprehend and indeed stay in front of. In some regards it is erroneous to attempt to write an outlook statement annually, as the line of sight has contracted to the point that at best a monthly outlook is feasible. What we write here will hold merit for months at best.

Over the medium term, there are always a plethora of reasons to be negative and underweight equities. The well worn adage 'the market climbs a wall of worry' highlights this very reality. Our task is to sift through these potential drivers and prioritize in a manner that enable us to filter out the noise. And to focus on probabilities and not possibilities. However, this year we are notably more circumspect than in prior periods. There is clearer sense that the markets 'get worse before they get better'. To this end, there are a number of noteworthy observations.

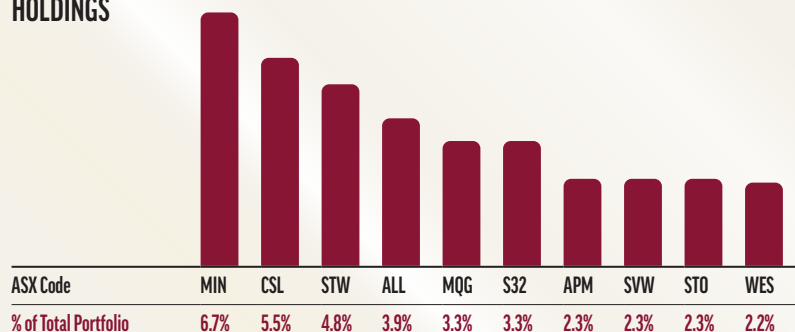
### Positive Drivers

As always there are some positives and as always it is difficult to know precisely how much has been factored in. The shortest positioning in 4 years indicates that we have already taken some of our medicine. Also, the bond market is now pointing to the strong likelihood that interest rates will need to be cut as early as Q1 2023 Calendar Year. If that is the case, then clearly many of the risks will become drivers.

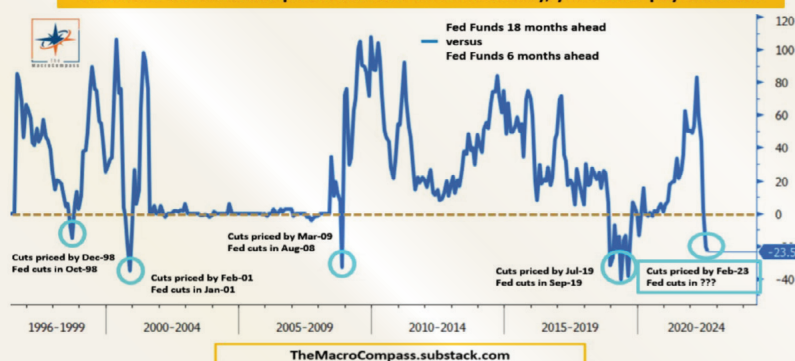
It is also worth highlighting, that it is counter to our experience and instincts to have the fund aligned with the consensus viewpoint. If the majority of investors are already positioned in a certain way, then who is left to continue that positioning? If the majority of investors are already short, then who is left to short/sell/reduce holdings? Where is the marginal seller?

Despite this observation, the majority do 'get it right' at different stages of the cycle, and this in and of itself is not sufficient to alter a viewpoint. Further, there is room for the 'majority' to have underestimated the severity of the next down leg.

### TOP 10 CURRENT HOLDINGS



### When the bond market prices Fed cuts to come shortly, you better pay attention



### POSITIVE DRIVERS

Market positioning is heavily skewed to the short side

Strong liquidity / cash remains at high levels

Bond market trend has finally turned negative after 4 decades

Bond market signaling rate cuts Q1 2023

Market indices and valuations have retraced a little

Market rises 4/5 Years

### UNCERTAINTIES

Inflation driven interest rate rises – 'Don't Fight the Fed'

Inflation – Impact on household spending, confidence and flow on to business confidence

(Further) Deteriorating US-China relations

Earnings forecasts are overly optimistic / require a round of downgrades

China Property Market – structural deficiencies mean this lever is considerably less effective

Economic impact of China's mis-handling of Covid-19 / flawed policy of zero tolerance

Recession – GDP contracts

Ukraine – Russia War impact on inflation, GDP declines; access to energy

Quantitative Tightening (QT) has hardly been mentioned but will materially impact bond yields

Impact of property market declines on banking et al sectors

Interest Rates now offer viable alternative

Geopolitical tensions escalating: the new cold war has evolved: democracy versus autocracy

# INVESTMENT REPORT

## Uncertainties for the Year Ahead

When we scan through the column of 'Uncertainties', the quantity and magnitude when taken as a whole, clearly tip the scales in favor of caution. The first and second derivative impacts of inflation are too pronounced and too likely. In past cycles, we have been prepared to look for the 'Powell Put' when the markets became a little edgy. But that was in an environment where 'Main Street' (the middle class) were not impacted. When Wall Street had a tantrum, the (US) Federal Reserve could capitulate and reverse course because there was no material impact on *Main Street*. Now, if Wall Street kick and scream, the Fed won't blink. To do so would be to allow inflation to run rampant and to do that would be to inflict enormous damage on the working class. The landscape has now changed, and we must change our positioning accordingly.

Indeed, whilst we are hesitant to make definitive comparisons, The similarities to 2008 are worth acknowledging. And this comparison is beginning to garner some media and investor interest.

In summary, we enter the 2023 financial year more cautious than at any time in recent memory. From both a top down and bottom-up perspective, the environment has become more challenging. This could of course all reverse tomorrow, in which case we would pivot as soon as it is recognised. But as we sit here today, we shall remain notably cautious, do less rather than more and continue to add to cash reserves.



## STRATEGIC POSITIONING

In forming any view as to how to position the portfolio during the coming financial year, the starting point is consideration of the mid-June pivot. For the first half of June 2022, investor rhetoric was centered around the impact of inflation but then rapidly pivoted to recession (as outlined above). This change in investor focus further narrowed the companies that could potentially provide a positive outcome. Indeed, it would be valid to state that there are less sectors that appear 'investable' at the current juncture than at any time in the fund's history. Whilst fluid, some examples of these niche segments that remain potentially attractive include:

- EV / Decarbonization; difficult to replicate in the Australian landscape given the lack of leading technology; lithium and copper producers provide the best pathway to exposure.
- LNG – Russia's ill devised invasion of Ukraine has created a structural change in global energy markets, spear headed by LNG; regardless of the outcome of the war, European nations will never again place themselves in a position where their energy security is reliant on Russian gas.
- Metcoal – a very narrow field indeed but worth the effort; similar to LNG, the structural change in European energy has necessitated the re-commissioning of thermal coal plants. This increase in demand at the same time that Russian coal has been banned, has driven thermal coal prices to double that of metcoal. This is unprecedented. Over time we expect substitution to occur, leading to a normalization of the price gap.

The funds active share remains high at 76% up from 73% in FY21, and turnover of 1.2 stabilised from 1.6 in the prior year. The speed at which markets are pivoting is startling, and the ability for managers to remain active and ready to pivot is growing in value.

## CORPORATE

Katana Capital Limited finished FY22 with 34,027,927 shares on issue. During the period from 1 July 2021 to 30 June 2022 1,601,135 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of \$1.09 with the price ranging from \$1.04 to \$1.15 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 FY22. 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 cents 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** (LEFT)  
INVESTMENT MANAGER

**Hendrik Bothma** (RIGHT)  
ANALYST

Katana Asset Management Limited





30 JUNE 2022

# DIRECTORS' REPORT

Your directors present their report with respect to results of Katana Capital Limited (the “Company” or “Katana Capital”) and its controlled entities (the “Group” or “the Consolidated Entity”) for the year ended 30 June 2022 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, unless otherwise stated:

### Information on Directors

<p><b>Dalton Gooding</b> - BBUS, FCA <i>Non-Executive Chairman</i></p>	<p>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.</p> <p>Mr Gooding also has a number of other directorships of companies in many different segments of business.</p>
<p><b>Peter Wallace</b> - SF FIN, FAICD, AFAIM Resigned 31 March 2022 <i>Non-Executive Director</i></p>	<p>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.</p> <p>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.</p> <p>Mr Wallace is Chairman of Icon Engineering Pty Ltd.</p> <p>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.</p> <p>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.</p> <p>During the past three years Mr Wallace has also served as a director of the following other listed companies:</p> <ul style="list-style-type: none"> <li>&gt; Blossomvale Holdings Ltd - appointed 8 July 2011, until July 2020 when Blossomvale was removed from the ASX</li> <li>&gt; BNK Banking Corp Ltd - appointed 7 August 2014 - resigned November 2019</li> </ul>
<p><b>Giuliano Sala Tenna</b> - BBUS (DISTINCTIONS) <i>Non-Executive Director</i></p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Ben Laird</b> - BSC, CFA Appointed 31 March 2022 <i>Non-Executive Director</i></p>	<p>Ben Laird has 20 years of equity capital markets experience in funds management and stockbroking.</p> <p>Most recently, Ben was a Senior Analyst at Viburnum Funds and before that, an Industrial Analyst and Executive Director at Euroz Securities.</p> <p>He is also a Chartered Financial Analyst Charterholder.</p>

# DIRECTORS' REPORT

## COMPANY SECRETARY

### Baden Bowen

- BCOMM, FCA

Appointed on  
23 February 2022

Baden is a Fellow of the Institute of Chartered Accountants in Australia with over 35 years' experience. Over the last 25 years Baden has held positions of Director, Company Secretary and Chief Financial Officer in public and private companies.

He has assisted a number of companies to list on the Australian Securities Exchange (ASX) and been involved with many equity raisings.

Baden has a sound understanding of the ASX Listing Rules and in-depth knowledge of the Corporations Act.

### Gabriel Chiappini

- BBUS, GAICD, CA

Resigned on  
23 February 2022

Mr Chiappini is a Chartered Accountant and member of the Australian Institute of Company Directors with over 20 years' experience in the commercial sector. Over the last 15 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.

## DIRECTORS' MEETING

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2022, and the numbers of meetings attended by each director were:

	DIRECTORS' MEETING		AUDIT & COMPLIANCE COMMITTEE MEETING	
	A	B	A	B
Dalton Gooding	9	9	2	2
Peter Wallace	7	7	1	2
Ben Laird	2	2	-	-
Giuliano Sala Tenna	8	9	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:

- Giuliano Sala Tenna (Chairman of Committee)
- Dalton Gooding
- Ben Laird

### 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	NO. OF SHARES
	30 JUNE 2022	30 JUNE 2021
Dalton Gooding	<b>95,700</b>	93,543
Peter Wallace	-	275,000
Giuliano Sala Tenna	-	-
Ben Laird	-	-

## EARNINGS PER SHARES

	YEAR ENDED 30 JUNE <b>2022</b>	YEAR ENDED 30 JUNE <b>2021</b>
	CENTS	CENTS
Basic and diluted earnings per share	<b>(0.81)</b>	20.54
Basic earnings from continuing operations attributable to the ordinary equity holders of the company	<b>(0.81)</b>	20.54

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share were 34,634,505 (2021: 37,085,506).

## 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 2022:

YEAR ENDED 30 JUNE 2022	CENTS PER SHARE	TOTAL PAID (\$'000)
Dividends paid during 1st Quarter of the year	<b>0.50</b>	<b>178</b>
Dividends paid during 2nd Quarter of the year	<b>0.50</b>	<b>174</b>
Dividends paid during 3rd Quarter of the year	<b>0.50</b>	<b>172</b>
Dividends paid during 4th Quarter of the year	<b>0.50</b>	<b>170</b>
<b>Total paid (\$'000)</b>	<b>2.00</b>	<b>694</b>

YEAR ENDED 30 JUNE 2021	CENTS PER SHARE	TOTAL PAID (\$'000)
Dividends paid during 1st Quarter of the year	0.50	191
Dividends paid during 2nd Quarter of the year	0.50	189
Dividends paid during 3rd Quarter of the year	0.50	183
Dividends paid during 4th Quarter of the year	0.50	182
<b>Total paid (\$'000)</b>	<b>2.00</b>	<b>745</b>

## 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 2022, the Group did not have any fulltime employees (2021: Nil).

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW

### Company overview

Katana Capital was incorporated in September 2005 as a listed investment company providing shareholders with access to the investment services of Katana Asset Management 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 is pleased to report that the fund generated a gross investment return of POSITIVE 1.13% for FY22 versus a loss of -11.06% for the All Ordinaries index. This was another exceptionally strong performance and represented a gross investment out-performance of +12.19% (before expenses).

Financial year 2022 proved to be yet another volatile year for equity markets with a bout of macroeconomic and geopolitical developments. There were two dominant events that defined the year: First rising costs and inflation, and secondly rising bond yields and the commencement of quantitative tightening (QT). There were also numerous other events which unfolded including, not one but multiple corrections (and a bear market in the US), spread of the Omicron variant, Russia's invasion of Ukraine, and the increasing threat of a recession. The All Ordinaries index staged a mediocre 5% return in the first half. This was more than wiped out with two 11% corrections in the second half; one in January and the second in June. This particularly weak second half resulted in Katana achieving a net loss after tax of \$282,271, compared to FY21 prior year profit after tax of \$7,619,180.

The net loss after tax for the year ended 30 June 2022 was \$282,271 (2021: profit \$7,619,180).

### Investments for future performance

The Manager remains committed to maintaining a low risk diversified portfolio, with a strong focus on capital preservation and long-term compounding. Consistent with previous years, the fund held an average of 59 individual stock positions throughout the year, and it remains particularly rare for any position to exceed 5% of the portfolio. The speed at which markets are pivoting is startling, and the ability for managers to remain active and ready to pivot is becoming increasingly important. With that in mind, the funds active share remains high at 76% - up from 73% in FY21, and turnover of 1.2 stabilised from 1.6 in the prior year.

### Cash from operations

Net cash inflows from operations were \$3,811,000 (2021: \$419,000) 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.

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## 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 14 July 2022, the company announced a fully franked 0.50 cent per share dividend.

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## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

As always there's a plethora of positive drivers and uncertainties capable of driving the market in opposing directions. On the positive side, current market positioning is heavily skewed to the short side (i.e. a lot of negativity is already factored in), liquidity remains at high levels and the Bond market trend has finally turned negative. On the other side inflation is running at multi decade highs, we're in a tightening cycle, confidence is falling and the probability of a recession in the US is rising. We enter FY23 more cautious than at any time in recent memory. From both a top down and bottom-up perspective, the environment has become more challenging. This could of course all reverse tomorrow, in which case we would pivot as soon as it is recognised. But as we sit here today, we shall remain notably cautious, do less rather than more and continue to add to cash reserves.

Looking forward, it is impossible to predict what challenges the market will produce in the coming 12 months. However, what Katana and the fund can control is the team and process that will respond to these challenges. We entered the FY22 with the strongest team in the fund's 17 year history, and this same team will steer the fund through the year ahead.

As at the date of this report the fund returned an uplift in net assets after tax of 4.36% for July 2022, Katana will continue to report its monthly NTA result to the ASX.

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## ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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## 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.

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## SHARE OPTIONS

### Unissued shares

There were no options outstanding as at 30 June 2022.

### 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.

# DIRECTORS' REPORT

## 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 – Resigned 31 March 2022

Giuliano Sala Tenna

Ben Laird – Appointed 31 March 2022

### (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 2022 is detailed on page 15 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.

# DIRECTORS' REPORT

## 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



**REMUNERATION REPORT (AUDITED)** - CONTINUED**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 2022 was \$558,162 (30 June 2021: \$666,203) as follows:

**(i) Management fee**

The Fund Manager receives a monthly management fee equal to 0.08333% (2021: 0.08333%) of the Portfolio value calculated at the end of each month. The fee for 2022 was \$410,176 (2021: was \$425,306). 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% (2021: 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 \$147,986 for the financial year ended 30 June 2022 (2021: \$240,897).

**Company performance**

The profit/(loss) after tax for the group from 2018 is as follows:

	2022	2021	2020	2019	2018
Profit/(loss) after tax expense \$'000	<b>\$(282)</b>	\$7,619	\$1,571	\$(628)	\$5,645
Earnings/(loss) per share - cents	<b>(0.81)</b>	20.54	3.92	(1.47)	12.85
Share Price 30 June	<b>1.13</b>	1.02	0.80	0.75	0.77

**Remuneration of directors and key management personnel of the Group**

2022	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL
	SALARY AND FEES		SUPER-ANNUATION	
	\$		\$	\$
<i>Non-executive directors</i>				
Dalton Gooding	<b>70,000</b>	<b>7,000</b>		<b>77,000</b>
Peter Wallace	<b>30,000</b>	<b>3,000</b>		<b>33,000</b>
Giuliano Sala Tenna	<b>40,000</b>	<b>4,000</b>		<b>44,000</b>
Ben Laird	<b>10,000</b>	<b>1,000</b>		<b>11,000</b>
<b>Total non-executive directors &amp; KMP</b>	<b>150,000</b>	<b>15,000</b>		<b>165,000</b>
2021	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL
	SALARY AND FEES		SUPER-ANNUATION	
	\$		\$	\$
<i>Non-executive directors</i>				
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
<b>Total non-executive directors &amp; KMP</b>	<b>150,000</b>		<b>14,250</b>	<b>164,250</b>

# DIRECTORS' REPORT

## 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 (2021: nil)
- Mr Peter Wallace - nil (2021: nil)
- Mr Giuliano Sala Tenna - nil (2021: nil)
- Mr Ben Laird - nil (2021: nil)

#### (ii) Shareholdings

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

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

2022 NAME	BALANCE AT THE START OF THE YEAR	OTHER CHANGES DURING THE YEAR (PURCHASES/ DISPOSALS)	BALANCE AT THE END OF THE YEAR
<i>Directors of Katana Capital Limited</i>			
<b>Ordinary Shares</b>			
Dalton Gooding	<b>93,543</b>	<b>2,157</b>	<b>95,700</b>
Peter Wallace	<b>275,000</b>	<b>(275,000)</b>	-
Ben Laird	-	-	-
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 \$37,359 (2021: \$37,248) for tax services provided.

### END OF REMUNERATION REPORT (AUDITED)

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## 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.

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## 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.

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## AUDITOR INDEPENDENCE

The Directors have obtained an independence declaration from the Company's auditors, Ernst & Young, as presented on page 18 of this Annual report.

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## NON-AUDIT SERVICES

Ernst & Young received \$5,250 for the provision of performance fee agreed upon procedure service during the year. The directors are satisfied that the provision of non-audit service is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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



**Dalton Gooding**  
CHAIRMAN

Perth, Western Australia

28 September 2022

# AUDITOR'S INDEPENDENCE DECLARATION



**EY**

**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

## **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 2022, 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;
- b. no contraventions of any applicable code of professional conduct in relation to the audit; and
- c. no non-audit services provided that contravene 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

Fiona Drummond  
Partner  
Perth  
28 September 2022

30 JUNE 2022

# FINANCIAL STATEMENTS

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
	NOTE		\$'000		\$'000
<b>Revenue</b>					
Dividends			<b>1,205</b>		872
Interest			-		3
Other income			-		43
Investment (loss)/income	3		<b>(520)</b>		11,313
<b>Total net investment income</b>			<b>685</b>		12,231
<b>Expenses</b>					
Management fees			<b>(410)</b>		(425)
Custody and administration fees			<b>(84)</b>		(107)
Insurance fees			<b>(78)</b>		(66)
Other expenses			<b>(264)</b>		(279)
Listing and registry costs			<b>(70)</b>		(64)
Legal, accounting and professional costs			<b>(200)</b>		(166)
Performance fees			<b>(148)</b>		(241)
Directors' remuneration expense			<b>(172)</b>		(171)
<b>(Loss)/profit before income tax expense</b>			<b>(741)</b>		10,712
Income tax benefit/(expense)	4		<b>459</b>		(3,093)
<b>(Loss)/profit for the year attributable to shareholders of the Company</b>			<b>(282)</b>		7,619
Other comprehensive income for the year			-		-
<b>Total comprehensive (loss)/income for the year attributable to shareholders of the Company</b>			<b>(282)</b>		7,619
<b>Basic and diluted (loss)/earnings per share (cents per share)</b>	18		<b>(0.81)</b>		20.54

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

AS AT 30 JUNE 2022

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		AS AT 30 JUNE 2022	AS AT 30 JUNE 2021
	NOTE	\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	7,142	5,775
Receivables	6	193	1,063
Prepaid insurance		36	32
Financial assets at fair value through profit or loss	7	32,281	38,751
<b>Total current assets</b>		<b>39,652</b>	45,621
<b>Non-current Assets</b>			
Deferred tax assets	8	-	-
<b>Total non-current assets</b>		<b>-</b>	-
<b>Total assets</b>		<b>39,652</b>	45,621
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Income tax payable	4	(293)	(1,586)
Payables	9	(608)	(1,164)
<b>Total current liabilities</b>		<b>(901)</b>	(2,750)
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	(150)	(1,564)
<b>Total non-current liabilities</b>		<b>(150)</b>	(1,564)
<b>Total liabilities</b>		<b>(1,051)</b>	(4,314)
<b>Net assets</b>		<b>38,601</b>	41,307
<b>Equity</b>			
Issued capital	11	35,503	37,233
Reserves	12	3,098	4,074
<b>Total equity</b>		<b>38,601</b>	41,307

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	ISSUED CAPITAL	PROFITS RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2020</b>	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 bought back from shareholders	(2,402)	-	-	(2,402)
<b>Balance at 30 June 2021</b>	37,233	4,074	-	41,307

	ISSUED CAPITAL	PROFITS RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 30 June 2021</b>	<b>37,233</b>	<b>4,074</b>	-	<b>41,307</b>
Loss for the Year	-	-	(282)	(282)
Transfer from Profits Reserve	-	(282)	282	-
Dividends paid	-	(694)	-	(694)
DRP shares allotted	73	-	-	73
Shares bought back from shareholders	(1,803)	-	-	(1,803)
<b>Balance at 30 June 2022</b>	<b>35,503</b>	<b>3,098</b>	-	<b>38,601</b>

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



FOR THE YEAR ENDED 30 JUNE 2022

# CONSOLIDATED STATEMENT OF CASH FLOW

	NOTES	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
			\$'000		\$'000
<b>Cash flows from operating activities</b>					
Payments for purchases of financial assets			<b>(57,404)</b>		(70,035)
Proceeds on sale of financial assets			<b>63,885</b>		71,362
Payments to suppliers and employees			<b>(1,618)</b>		(1,702)
Interest received			-		3
Dividends and distributions received			<b>1,196</b>		795
Income tax paid			<b>(2,248)</b>		(47)
Other revenue			-		43
<b>Net cash provided by operating activities</b>	15		<b>3,811</b>		419
<b>Cash flows from financing activities</b>					
Payments for buyback of shares			<b>(1,823)</b>		(2,382)
Dividend paid net of amounts reinvested			<b>(621)</b>		(745)
<b>Net cash used in financing activities</b>			<b>(2,444)</b>		(3,127)
<b>Net increase/(decrease) in cash and cash equivalents</b>					
Cash and cash equivalents at the beginning of the year			<b>5,775</b>		8,483
<b>Cash and cash equivalents at end of the year</b>	5		<b>7,142</b>		5,775

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 2022 was authorised for issue in accordance with a resolution of the directors on 28 September 2022.

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.

#### 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### b) Statement of compliance - CONTINUED

#### Accounting standards and interpretations issued but not yet effective - CONTINUED

##### **AASB 2021-5 Amendments to AASBs - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 July 2023)** - CONTINUED

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.

##### **AASB 2020-1 Amendments to AASBs - 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### c) Principle of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2022. 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 if 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.

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 Group assesses its business model. 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### d) Investments and other financial assets - CONTINUED

#### *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 rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### 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 short-term deposits (as defined above) with banks or financial institutions.

### 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 shareholders 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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.

### 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 <b>2022</b> \$'000	YEAR ENDED 30 JUNE <b>2021</b> \$'000
Realised gains on financial assets at fair value through profit or loss	<b>8,572</b>	6,378
Unrealised (losses)/gains on financial assets at fair value through profit or loss	<b>(9,092)</b>	4,935
<b>Total income</b>	<b>(520)</b>	11,313

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. INCOME TAX EXPENSE

### a) Income tax expense

	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
		\$'000		\$'000
<b>Total income tax (benefit)/expense results in a:</b>				
Current tax expense		955		1,633
Change in deferred tax liability		(1,577)		899
Change in deferred tax asset		163		561
		<b>(459)</b>		3,093

### b) Deferred tax asset recognised through equity

	AS AT 30 JUNE	2022	AS AT 30 JUNE	2021
		\$'000		\$'000
Prior year under/(over)		-		-
		-		-

### c) Reconciliation of income tax expense to prima facie tax payable

	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
		\$'000		\$'000
Prima facie income tax expense calculated at 30%		(222)		3,213
Less the tax effect of:				
Imputation credit gross up		91		60
Foreign withholding tax on dividend		10		-
Withholding tax		(32)		-
Franking credit offset		(304)		(200)
Non-deductible expenditure		(2)		20
		<b>(459)</b>		3,093

### d) Income tax receivable/(payable)

	AS AT 30 JUNE	2022	AS AT 30 JUNE	2021
		\$'000		\$'000
Balance at 1 July		(1,586)		-
Current tax expense		(955)		(1,633)
Payments made during the year		2,248		47
		<b>(293)</b>		(1,586)

## 5. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	30 JUNE	2022	30 JUNE	2021
		\$'000		\$'000
Cash at banks		7,142		5,775



**6. CURRENT ASSETS - RECEIVABLES**

	AS AT 30 JUNE <b>2022</b>	AS AT 30 JUNE <b>2021</b>
	\$'000	\$'000
Other receivables	<b>193</b>	148
Unsettled trades receivable	-	915
	<b>193</b>	1,063

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 <b>2022</b>	30 JUNE <b>2021</b>
	\$'000	\$'000
Investment in listed equities	<b>30,622</b>	35,669
Investments in certificates of deposit	<b>447</b>	824
Investment in listed unit trusts	<b>1,212</b>	2,258
<b>Total financial assets at fair value through profit or loss</b>	<b>32,281</b>	38,751

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 <b>2022</b>	30 JUNE <b>2021</b>
	\$'000	\$'000
Investments and unsettled shares	<b>115</b>	230
Provisions	<b>70</b>	118
Other	<b>3</b>	4
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 10)	<b>(188)</b>	(352)
Net deferred tax assets	-	-

**9. CURRENT LIABILITIES - PAYABLES**

	AS AT 30 JUNE <b>2022</b>	AS AT 30 JUNE <b>2021</b>
	\$'000	\$'000
Unsettled trades payable	<b>382</b>	769
Management fees	<b>117</b>	134
Performance fee payable	<b>71</b>	241
Other payables	<b>38</b>	20
	<b>608</b>	1,164

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	30 JUNE 2022	30 JUNE 2021
	\$'000	\$'000
The balance comprises temporary differences attributable to:		
Investments and unsettled shares	<b>278</b>	1,858
Dividends receivable	<b>43</b>	41
Other	<b>17</b>	17
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 8)	<b>(188)</b>	(352)
	<b>150</b>	1,564

## 11. ISSUED CAPITAL

	30 JUNE 2022		30 JUNE 2021	
	NO. OF SHARES	\$'000	NO. OF SHARES	\$'000
Issued and paid up capital - Ordinary shares	<b>34,027,927</b>	<b>35,503</b>	35,629,062	37,233

### (a) Movements in ordinary share capital

DETAILS	NO. OF SHARES	\$'000
Opening balance 1 July 2020	38,275,174	39,635
Shares bought back from shareholders, net of Dividend Re-investment Plan	(2,646,112)	(2,402)
Closing balance 30 June 2021	35,629,062	37,233
Opening balance 1 July 2021	<b>35,629,062</b>	<b>37,233</b>
Shares bought back from shareholders, net of Dividend Re-investment Plan	<b>(1,601,135)</b>	<b>(1,730)</b>
Closing Balance 30 June 2022	<b>34,027,927</b>	<b>35,503</b>

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

During the period from 1 July 2021 to 30 June 2022, 1,601,135 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of \$1.09 with the price ranging from \$1.04 to \$1.15 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.

### (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 \$39,652,490 at 30 June 2022 (30 June 2021: \$45,620,539), 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 2022 \$'000	30 JUNE 2021 \$'000
Opening balance	4,074	2,029
Transfer from/(to) retained earnings/(accumulated losses)	(282)	2,790
Dividends paid	(694)	(745)
<b>Balance at the end of the year</b>	<b>3,098</b>	4,074

### b) Accumulated losses

	30 JUNE 2022 \$'000	30 JUNE 2021 \$'000
Balance at the beginning of the year	-	(4,829)
(Loss)/profit for the year attributable to the members of the company	(282)	7,619
Transfer to/(from) profits reserve	282	(2,790)
<b>Balance at the end of the year</b>	<b>-</b>	-

## 13. KEY MANAGEMENT PERSONNEL DISCLOSURES

### a) Key Management Personnel Compensation

	30 JUNE 2022 \$'000	30 JUNE 2021 \$'000
Short-term employee benefits	-	-
Director fees	150	150
Post-employment benefits	15	14
	<b>165</b>	164

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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, Mr Peter Wallace, and Mr Ben Laird.

### (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 \$37,359 (2021: \$37,248) 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 \$410,176 to the Fund Manager for management services provided during the year (2021: \$425,306). There was performance fee of \$147,986 due to the Fund Manager for the year (2021: \$240,897). The Fund Manager and its directors have the following shareholdings:

2022			
NAME	BALANCE AT THE START OF THE YEAR	CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Brad Shallard	4,737,001	115,466	4,852,467
Romano Sala Tenna	5,609,376	127,706	5,737,082
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

#### 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 2022	YEAR ENDED 30 JUNE 2021
	\$'000	\$'000
<b>(Loss)/profit for the year attributable to shareholders after tax</b>	<b>(282)</b>	7,619
<b>Adjustments for:</b>		
Decrease/(increase) in trade and other receivables	866	(775)
Decrease in deferred tax assets	-	561
Change in financial assets held for trading	6,470	(8,151)
(Decrease) in trade and other payables	(556)	(1,320)
(Decrease)/increase in deferred tax liabilities	(1,394)	899
(Decrease)/increase in current tax liabilities	(1,293)	1,586
<b>Net cash provided by operating activities</b>	<b>3,811</b>	419

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. FINANCIAL RISK MANAGEMENT - CONTINUED

### (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.

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 term Performance of the Group. These factors include:

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

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

### (d) Market risk

Market risk is the risk that changes in foreign exchange rates, interest rates and prices will affect the 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 37 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 2022. The analysis is based on the assumptions that the index increased/decreased by 10% (2021: 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 \$32,280,881 (2021: \$38,750,360) that represented the maximum exposure as at reporting date.

**16. FINANCIAL RISK MANAGEMENT** - CONTINUED**(d) Market risk** - CONTINUED**(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.

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	2022	30 JUNE	2021
			\$'000		\$'000
Financial Assets					
Cash and short term deposits - floating	0.95%		<b>7,142</b>		5,775

The table above 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 (2021: +/- 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	
<b>30 June 2022</b>	<b>(3,228)</b>	<b>3,228</b>	-	-
30 June 2021	(3,875)	3,875	-	-

**INTEREST RATE RISK**

	"-50BPS"	"+50BPS"	"-50BPS"	"+50BPS"
	IMPACT ON OPERATING PROFIT		IMPACT ON OTHER COMPREHENSIVE INCOME	
<b>30 June 2022</b>	<b>(36)</b>	<b>36</b>	-	-
30 June 2021	(29)	29	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. FINANCIAL RISK MANAGEMENT - CONTINUED

### (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 2022 the Group does not hold any debt securities (30 June 2021: 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 2022 the Group held no Exchange Traded Options (30 June 2021: 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.

### (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 2022 (30 June 2021: \$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 measurement 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.



**16. FINANCIAL RISK MANAGEMENT** - CONTINUED**(h) Fair value measurements** - CONTINUED

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

<b>30 JUNE 2022</b>	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Investment in listed equities	<b>30,622</b>	-	-	<b>30,622</b>
Investments in certificates of deposit	<b>447</b>	-	-	<b>447</b>
Investment in unit trusts	<b>1,212</b>	-	-	<b>1,212</b>
<b>Total</b>	<b>32,281</b>	-	-	<b>32,281</b>
<b>30 JUNE 2021</b>	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Investment in listed equities	35,669	-	-	35,669
Investments in certificates of deposit	824	-	-	824
Investment in unit trusts	2,258	-	-	2,258
<b>Total financial assets designated at fair value through profit or loss</b>	<b>38,751</b>	-	-	<b>38,751</b>

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

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

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 2022 (2021: \$nil). The fair values of the investment in unlisted entities have been estimated using the redemption prices as at reporting date.

**17. SEGMENT INFORMATION**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. EARNINGS PER SHARE

### (a) Basic earnings per share:

	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
		CENTS		CENTS
Basic and diluted (loss)/earnings per share		<b>(0.81)</b>		20.54

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

	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
		\$'000		\$'000
(Loss)/profit from continuing operations		<b>(282)</b>		7,619
(Loss)/profit attributable to the ordinary equity holders of the Company used in the calculation of basic and diluted (loss)/earnings per share		<b>(282)</b>		7,619

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

	YEAR ENDED 30 JUNE	2022	YEAR ENDED 30 JUNE	2021
<b>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</b>		<b>34,634,505</b>		37,085,506
<b>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</b>		<b>34,634,505</b>		37,085,506

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 14 July 2022, the company announced a fully franked 0.5 cent per share dividend.

## 20. REMUNERATION OF AUDITORS

	YEAR ENDED 30 JUNE <b>2022</b>	YEAR ENDED 30 JUNE <b>2021</b>
	\$	\$
<b>(a) Audit Services</b>		
E&Y Australia		
Audit and review of financial reports	<b>55,000</b>	41,350
<b>(b) Non-Audit Services</b>		
Other services	<b>5,250</b>	5,000
	<b>60,250</b>	46,350

## 21. 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 2022:

YEAR ENDED 30 JUNE 2022	CENTS PER SHARE	TOTAL PAID (\$'000)
Dividends paid during 1st Quarter of the year	<b>0.50</b>	<b>178</b>
Dividends paid during 2nd Quarter of the year	<b>0.50</b>	<b>174</b>
Dividends paid during 3rd Quarter of the year	<b>0.50</b>	<b>172</b>
Dividends paid during 4th Quarter of the year	<b>0.50</b>	<b>170</b>
<b>Total paid (\$'000)</b>	<b>2.00</b>	<b>694</b>

YEAR ENDED 30 JUNE 2021	CENTS PER SHARE	TOTAL PAID (\$'000)
Dividends paid during 1st Quarter of the year	0.50	191
Dividends paid during 2nd Quarter of the year	0.50	189
Dividends paid during 3rd Quarter of the year	0.50	183
Dividends paid during 4th Quarter of the year	0.50	182
<b>Total paid (\$'000)</b>	<b>2.00</b>	<b>745</b>

	30 JUNE <b>2022</b>	30 JUNE <b>2021</b>
	\$'000	\$'000
<b>Franking credits available for subsequent financial years based on tax rate of 30% (2021: 30%)</b>	<b>2,795</b>	1,844

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

- franking credits that will arise from the payment of the amount of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. PARENT ENTITY FINANCIAL INFORMATION

### Parent Entity

	30 JUNE 2022 \$'000	30 JUNE 2021 \$'000
Assets	<b>39,652</b>	45,621
Liabilities	<b>1,051</b>	4,314
Net Assets	<b>38,601</b>	41,307
Equity	<b>38,601</b>	41,307

	YEAR ENDED 30 JUNE 2022 \$'000	YEAR ENDED 30 JUNE 2021 \$'000
(Loss)/profit for the year	<b>(282)</b>	7,619
Total comprehensive income for the year	<b>(282)</b>	7,619

### 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 2017.

#### (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 2022 (30 June 2021: Nil).

30 JUNE 2022

## 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 19 to 42 are in accordance with the *Corporations Act 2001*, including
  - (i) Giving a true and fair view of the financial position as at 30 June 2022 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 2022.

On behalf of the Board Katana Capital Limited



**Dalton Gooding**  
CHAIRMAN

28 September 2022

Perth, Western Australia

# INDEPENDENT AUDITOR'S REPORT



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 2022, 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 2022 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.

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## 1. Investment valuation

### Why significant

The Group has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2022, the value of these financial assets, as set out in Note 7 of the financial report, was \$32.28 million, which represents 81% 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.

### How our audit addressed the key audit matter

We assessed the fair value of significant investments in the portfolio held at 30 June 2022 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

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 2022, management and performance fees totalled \$0.56 million which represents 39% 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.

### How our audit addressed the key audit matter

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.

# INDEPENDENT AUDITOR'S REPORT



Page 3

## 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 2022 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.





- ▶ 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 12 to 16 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Katana Capital Limited for the year ended 30 June 2022, 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Fiona Drummond' in a cursive style.

Fiona Drummond  
Partner  
Perth  
28 September 2022

## ADDITIONAL ASX INFORMATION

### Net tangible assets per security

	30 JUNE 2022	30 JUNE 2021
Net tangible asset backing per ordinary security (after tax and provision)	<b>\$1.135</b>	\$1.160

### Ordinary Fully Paid Shares - AS AT 15 AUGUST 2022

RANGE	TOTAL HOLDERS	UNITS	% UNITS
1-1,000	96	22,270	0.07
1,001-5,000	31	91,681	0.27
5,001-10,000	32	257,648	0.76
10,001-100,000	100	3,898,670	11.48
100,001 and over	55	29,687,206	87.42
<b>Total</b>	<b>314</b>	<b>33,957,475</b>	<b>100.00</b>

### Unmarketable Parcels

	MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum \$500.00 parcel at \$1.0600 per unit	472	72	5,472

### Top 20 Shareholders - AS AT 15 AUGUST 2022

RANK		UNITS	% OF UNITS
1	WONDER HOLDINGS PTY LTD	2,518,139	7.42
2	KATANA ASSET MANAGEMENT LTD	2,386,275	7.03
3	CLASSIC CAPITAL PTY LTD <BRL UNIT A/C>	2,080,750	6.13
4	JOVE PTY LTD	1,557,108	4.59
5	MR ROMANO SALA TENNA + MRS LINDA SALA TENNA <THE SALA TENNA SUPER A/C>	1,426,190	4.20
6	MR BRAD JOHN SHALLARD + MRS LISA MAREE DUPEROUZEL <THE SHALLARD SUPER FUND A/C>	1,425,243	4.20
7	BS CAPITAL PTY LTD <THE SHALLARD FAMILY A/C>	1,283,782	3.78
8	PULO RD PTY LTD <PULO RD SUPER FUND A/C>	1,204,400	3.55
9	MRS LINDA SALA TENNA	919,198	2.71
10	AUXILIUM CAPITAL PTY LTD <ST FAMILY CHARITY A/C>	903,364	2.66
11	COLLORI PTY LTD <ELLSEE INVESTMENT A/C>	770,281	2.27
12	MR MARK JOHN BAHEN + MRS MARGARET PATRICIA BAHEN <SUPERANNUATION ACCOUNT>	750,000	2.21
13	CAMBO INVESTMENTS PTY LTD	686,072	2.02
14	METHUEN HOLDINGS PTY LTD <THE PB FAMILY A/C>	655,910	1.93
15	BLU BONE PTY LTD	627,900	1.85
16	MR RONALD WILLIAM JAMES + MRS ELIZABETH JANET JAMES	600,000	1.77
17	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	560,330	1.65
18	MRS ELSIE DA SILVA	530,706	1.56
19	KEFIR PTY LTD <SNOWBALL SUPER FUND A/C>	500,000	1.47
20	WFF PTY LTD <WHEATLEY FAMILY FNDN A/C>	473,288	1.39
<b>Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)</b>		<b>21,858,936</b>	<b>64.39</b>

### Substantial Shareholders - AS AT 15 AUGUST 2022

	SHARES	% OF SHARES
Brad Shallard	4,826,121	14.07%
Romano Sala Tenna	5,685,202	16.41%

# ADDITIONAL ASX REPORTING

## List of Investments Held as at 30 June 2022

### *Katana Investment Portfolio*

AERIS RESOURCES ORD	MACH7 TECHNOLOGIES ORD
AIR NEW ZEALAND ORD	MACQUARIE GROUP ORD
ALLKEM ORD	MINERAL RESOURCES ORD
AMP ORD	NITRO SOFTWARE ORD
ANSELL ORD	NORWEST ENERGY ORD
APM HUMAN SERVICES INTERNATIONAL ORD	OZ MINERALS ORD
APPEN ORD	PENDAL GROUP ORD
ARISTOCRAT LEISURE ORD	PEPPER MONEY ORD
AUSTRALIAN FINANCE GROUP ORD	PERPETUAL ORD
BANK OF QUEENSLAND ORD	QANTAS AIRWAYS ORD
BAPCOR ORD	REGIS RESOURCES ORD
BETASHARES AUSTRALIAN HIGH ETF	RESOLUTE MINING ORD
CHALLENGER ORD	SANDFIRE RESOURCES ORD
CORONADO GLOBAL RESOURCES CDI	SANTOS ORD
CSL ORD	SEVEN GROUP HOLDINGS ORD
DOMINO'S PIZZA ENTERPRISES ORD	SEVEN WEST MEDIA ORD
EMECO HOLDINGS ORD	SONIC HEALTHCARE ORD
ETFS HYDROGEN ETF	SOUTH32 ORD G
GENESIS MINERALS ORD	SPDR S&P/ASX 200 ETF
GENUSPLUS GROUP ORD	SPDR S&P/ASX 200 ETF
GOODMAN GROUP UNT	UNIBAIL-RODAMCO-WESTFIELD CDI
INDEPENDENCE GROUP ORD	VANECK VECTORS GLOBAL CLEAN ENERGY ETF
INGENIA COMMUNITIES UNT	WESFARMERS ORD
INTEGRATED RESEARCH ORD	WESTPAC BANKING CORPORATION ORD
KINA SECURITIES ORD	WOODSIDE ENERGY GROUP ORD

### **Total Number of Transactions during the report period**

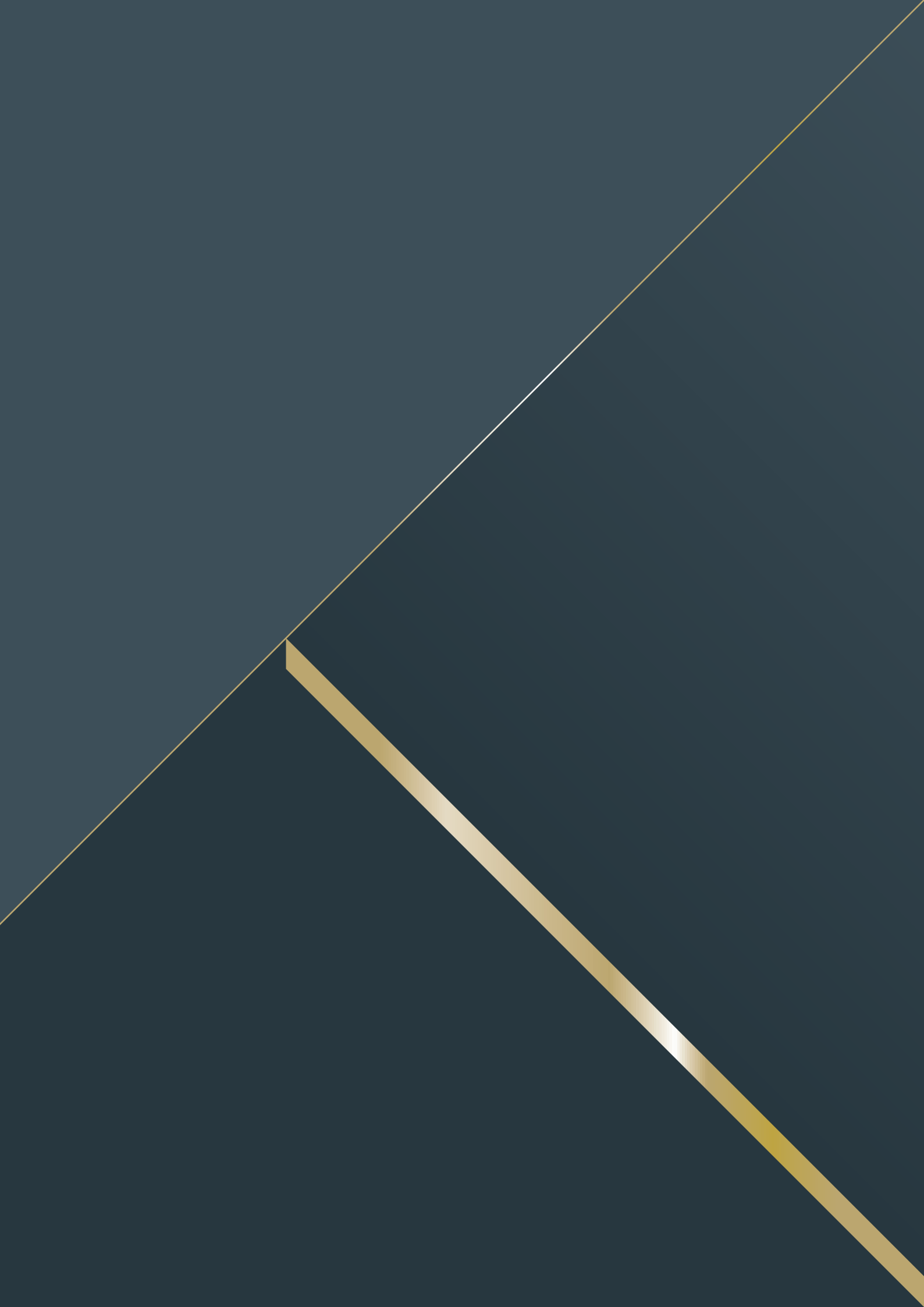
Total number of transactions during the 12 months to 30 June 2022 was 710 with brokerage fees of \$215,303.

### **Total Management Fees Paid or Accrued and Summary of Agreement**

Please refer to disclosure made in Remuneration Report.

### **Corporate Governance Statement**

Please refer to [www.katanaasset.com](http://www.katanaasset.com)





**KATANA**  
CAPITAL LIMITED

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