Katana Capital Limited

ABN 56 116 054 301

Financial statements
for the year ended 30 June 2018

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Financial statements
for the year ended 30 June 2018

Contents

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 2018 and the state of affairs for the Company at that date.

DIRECTORS

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

Information on Directors

Dalton Gooding - BBus, FCA.
(Non-Executive Chairman)

Mr Gooding was appointed to the Board on 11 November 2005. Mr Gooding, formerly a long-standing partner at Ernst & Young, is a Fellow of the Institute of Chartered Accountants in Australia. He is currently the senior partner of Gooding Partners and advises to a wide range of businesses with particular emphasis relating to taxation and accounting issues, due diligence, feasibilities and general business advice. Mr Gooding also has a number of other directorships of companies in many different segments of business. During the past three years Mr Gooding has also served as a director of the following other listed companies:

- SIPA Resources Limited – appointed 1 May 2003, resigned 31 March 2016
- Brierty Limited - appointed 26 October 2007
- TFS Corporation Limited - appointed 16 October 2014

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

Mr Wallace was appointed to the Board on 19 September 2005. Mr Wallace has had over 45 years in the Banking and Finance industry with experience gained in all aspects of debt and equity raising. Past Executive positions held include COO of a major Regional Bank as well as Chief Credit Officer and other General Management roles. Most recently as Head of Corporate Advisory for Bell Potter Securities Ltd, Mr Wallace directed the capital raisings for several large Public companies as well as providing a variety of Corporate Advisory services to a wide range of companies, both private and publicly owned. During the past three years Mr Wallace has also served as a director of the following other listed companies:

- Neptune Marine Services Limited - appointed 8 July 2011
- Goldfields Money Ltd - appointed 7 August 2014

Giuliano Sala Tenna - BCom, FFIN, GAICD.
(Non-Executive Director)

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

Mr Sala Tenna currently works with one of Australia's leading full service stockbroking firms in Corporate Advisory and Institutional Sales.

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

Mr Sala Tenna has worked in the Finance Industry for over 20 years in various fields including credit, financial advising, business development, corporate advisory and equity sell side / buy side.

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

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

During the past three years Mr Giuliano Sala Tenna has not served any other directorship role with listed companies.

Directors' report (continued)

COMPANY SECRETARY

Gabriel Chiappini - BBus, GAICD, CA

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

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2018, and the numbers of meetings attended by each director were:

	Directors' meetings		**Audit & Compliance Committee meetings**	
	A	**B**	**A**	**B**
Dalton Gooding	6	6	2	2
Peter Wallace	6	6	2	2
Giuliano Sala Tenna	6	6	2	2

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

Committee membership

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

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

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

Directors' interest in Shares and Options

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

	No. of shares 30 June 2018	No. of options 30 June 2018
Dalton Gooding	86,645	-
Peter Wallace	300,000	-
Giuliano Sala Tenna	-	-

EARNINGS PER SHARE

	30 June 2018 Cents	30 June 2017 Cents
Basic earnings per share		
Basic earnings from continuing operations attributable to the ordinary equity holders of the company	**12.85**	2.10

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share was 43,896,154 (2017: 44,582,098).

Directors' report (continued)

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 2018:

		30 June 2018 $	30 June 2017 $
Dividend paid during 1st Quarter of the year	Total Paid	**221,403**	670,105
	Cents per share	**0.5 cents**	1.5 cents
Dividend paid during 2nd Quarter of the year	Total Paid	**220,667**	223,282
	Cents per share	**0.5 cents**	0.5 cents
Dividend paid during 3rd Quarter of the year	Total Paid	**219,084**	223,094
	Cents per share	**0.5 cents**	0.5 cents
Dividend paid during 4th Quarter of the year	Total Paid	**326,768**	222,204
	Cents per share	**0.75 cents**	0.5 cents
		987,922	1,338,685

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 2018, the Group did not have any full time employees (2017: Nil).

OPERATING AND FINANCIAL REVIEW

Company overview

Katana Capital was incorporated in September 2005 as a listed investment company providing shareholders with access to the investment services of Katana Asset Management 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 incorporate gearing or short selling of securities.

The All Ordinaries Index started FY18 at 5,764 points and rose by 9.12% during the course of the year to close at 6,289 points on 30 June 2018. FY18 was characterised as another year of relative low volatility in global equity markets despite the increased level of policy uncertainty emanating from the Trump administration and the ongoing concerns about the level of bad debts in the Chinese banking system. Subsequent to the financial year end, there has been an escalation in the trade war between North America and its trading partners which we believe could weigh on sentiment in the short term and global growth in the longer term. Given this backdrop the management team is on heightened alert concerning contagion from emerging markets which could flow into our system. Katana outperformed its benchmark by 17.15% on a gross return basis with a positive return of 26.27%. Gross return is the percentage of the investment income, net of interest expense and brokerage costs, over the value of the managed portfolio at the beginning of the year. This extended its track record of outperformance to ten out of the past twelve years since the Fund's inception (before fees and taxes). Over the course of the year, Katana increased the Fund's holdings to large and midcap stocks over small cap companies as the management team believes the current equity market is maturing and hence is placing a greater emphasis on liquidity within its portfolio. These changes are represented in the top 10 stocks, with 8 of the top 10 holdings ASX200 companies and 5 of the top 10 holdings ASX20 companies. It is important to highlight this later point is by design as the management team becomes more concerned regarding the complacency of equity markets and the stage of the equity, inflation and interest rate cycle which could lead to large share price moves in less liquid small cap stocks. The net profit after tax for the year ended 30 June 2018 was $5,644,770 (2017: $935,276).

Directors' report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Investments for future performance

The Manager is committed to maintaining a diversified portfolio, which it believes, provides better risk adjusted returns compared to achieving that same outcome with a concentrated portfolio. The Manager continued to hold between 50-60 individual stock positions and manage cash to match risk profile. Similar to a position taken in FY18, Katana's Fund Manager will seek to continue to find value including in a number of mid and small-cap companies. In addition to this, during FY18 the Fund Manager invested in a number of successful IPOs and will continue to assess quality IPO opportunities in which to invest into. Key to the Fund's investment outlook is its maintenance of the current dividend cycle.

Cash from operations

Net cash outflows from operations were $5,347,048 (2017: inflows $2,342,367) during the year which reflects the Group's investment from the Australian equities market.

Net cash flows for the financial year ending 30 June 2019 are expected to remain neutral and will be subject to the Group taking advantage of opportunities within the Australian equities market and the general performance of the market.

Liquidity and funding

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

Risk management

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

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SIGNIFICANT CHANGES AFTER BALANCE DATE

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 23 July 2018, the company announced a 30% franked 1 cent per share dividend.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Fund Manager believes that FY19 will be a more challenging year than FY18 where active portfolio management will be more important than ever. On the one hand, investors are presented with the best synchronised global economic growth since the global financial crisis and globally interest rates remain historically low. On the other hand, inflationary pressures are beginning to build in the system which will in time require a response from central banks. Furthermore investors are faced with an almost unprecedented level of policy uncertainty emanating from North America and if a de-escalation of the trade wars does not occur soon then it is the Fund Manager's belief this could have a profound negative impact on global equity markets. Investors are also presented with a financial system that has continued to accumulate more debt in certain pockets and hence any destabilising or unpredictable policies from the United States could cause contagion starting in the emerging markets and being transferred into the developed world.

Directors' report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS (continued)

Australia continues to grow at a sub-trend pace with the lower Australian dollar assisting both the mining and non-mining sectors. The Fund Manager believes the cost out story has now largely played out for Australian corporates and hence further margin improvements will be difficult to come by. Demand is being driven by the emerging middle classes in China and other Asian countries which is being put at risk by North American foreign policy. This region contains some 40% of the world's population and should continue to increase demand for a broad range of products and services for many years to come if their financial system hold together. The Fund Manager believes that if North American foreign policy reverted to its historical text pre the Trump administration then domestic and global equity markets would be significantly higher. Hence the Fund Manager has a clear eye on managing risk through this period of heightened international policy uncertainty while monitoring closely for any signs of de-escalation to invest more aggressively.

The low growth environment is providing a tailwind to companies in the form of lower interest rates and lower input costs, which is being partly offset by reduced consumption growth due to an ageing population and lower immigration. In addition, technological change is disrupting traditional business models and in many cases, reducing operating margins. This issue and the associated uncertain outlook has resulted in many companies cutting back on investment and instead simply using any excess funds to pay higher dividends and/or to buy back shares. While this is exactly what shareholders are looking for in the short term, profitability will inevitably decline if this continues over the longer term.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued shares

There were no options outstanding as at 30 June 2018.

Shares issued on the exercise of Options

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

Options granted as remuneration

There were no options granted as remuneration.

REMUNERATION REPORT (AUDITED)

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

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

(a) Details of Key Management Personnel

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

(i) Chairman – non-executive

Dalton Gooding

(ii) Non-executive directors

Peter Wallace

Giuliano Sala Tenna

Directors' report (continued)

REMUNERATION REPORT (AUDITED) (continued)

(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 structure

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

(i) Non-executive director remuneration

Objective

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

Structure

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

The amount of aggregate remuneration, including the issue of options sought to be approved by shareholders and the manner in which it is apportioned amongst directors, is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. 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 2018 is detailed on page 9 of this report.

Directors' report (continued)

REMUNERATION REPORT (AUDITED) (continued)

(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 due to expire at the end of 2015, however the agreement was renewed at the shareholder's Annual General Meeting held on 24 November 2015 for a further period of 5 years and 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.

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;

Directors' report (continued)

REMUNERATION REPORT (AUDITED) (continued)

(iii) Compensation of Katana Asset Management Ltd (continued)

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

The Company may immediately terminate the Management Agreement if:

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

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

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

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

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

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

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

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

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

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

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

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

Management and performance fees

Total management and performance fees paid and accrued by the Group to Katana Asset Management Ltd for the year ended 30 June 2018 was $1,417,910 (30 June 2017: $389,024) as follows:

***(i)* Management fee**

The Fund Manager receives a monthly management fee equal to 0.08333% (2017: 0.08333%) of the Portfolio value calculated at the end of each month. The fee for 2018 was $421,680 (2017: $389,024). 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% (2017: 15.0%) of the amount by which the Fund Manager outperforms the ASX All Ordinaries during the calculation period (calculated annually for the 12 month period ending 30 June). The Fund Manager qualified to receive a performance fee of $996,230 for the financial year ended 30 June 2018 (2017: $nil).

Directors' report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Company performance

The profit/(loss) after tax for the group from 2014 is as follows:

	2018	2017	2016	2015	2014
Profit/(loss) after tax expense	**$5,644,770**	$935,276	$598,401	$(1,157,799)	$5,904,101
Earnings/(Loss) per share - cents	**12.85**	2.10	1.34	(2.70)	17.07
Share Price 30 June	**$0.77**	$0.71	$0.79	$0.82	$0.95

Remuneration of directors and key management personnel of the Group

2018	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Other[i]	Cash STI	Super-annuation	Termination benefits	Options	Total	Percentage of remuneration which is performance based
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Gooding	70,000	-	-	6,650	-	-	76,650	-
Peter Wallace	40,000	-	-	3,800	-	-	43,800	-
Giuliano Sala Tenna	40,000	-	-	3,800	-	-	43,800	-
Total non-executive directors & KMP	**150,000**	**-**	**-**	**14,250**	**-**	**-**	**164,250**	**-**

[i] insurance premiums have not been included in other remuneration.

2017	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Salary and fees	Other[i]	Cash STI	Super-annuation	Termination benefits	Options	Total	Percentage of remuneration which is performance based
	$	$	$	$	$	$	$	%
Non-executive directors								
Dalton Gooding	70,000	-	-	6,650	-	-	76,650	-
Peter Wallace	40,000	-	-	3,800	-	-	43,800	-
Giuliano Sala Tenna	40,000	-	-	3,800	-	-	43,800	-
Total non-executive directors & KMP	**150,000**	**-**	**-**	**14,250**	**-**	**-**	**164,250**	**-**

[i] insurance premiums have not been included in other remuneration.

Directors' report (continued)

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 (2017: nil)
- Mr Peter Wallace nil (2017: nil)
- Mr Giuliano Sala Tenna nil (2017: nil)

(ii) Shareholdings

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

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

2018 Name	Balance at the start of the year	Received during the year in the exercise of options	Other changes during the year (purchases / (disposals)	Balance at the end of the year
Directors of Katana Capital Limited				
Ordinary shares				
Dalton Gooding	176,095	-	(89,450)	86,645
Peter Wallace	300,000	-	-	300,000
Giuliano Sala Tenna	-	-	-	-

Other transactions and balances with key management personnel

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding partners received $36,465 (2017: $34,976) for tax services provided.

END OF REMUNERATION REPORT (AUDITED)

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

INDEMNIFICATION OF AUDITORS

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

Directors' report (continued)

AUDITOR INDEPENDENCE

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

NON-AUDIT SERVICES

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

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

Dalton Gooding

Chairman

Perth, Western Australia
25 September 2018

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

As lead auditor for the audit of Katana Capital Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
25 September 2018

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	Notes	Consolidated For the year ended **30 June 2018 $**	30 June 2017 $
Revenue			
Dividends		**889,897**	799,657
Interest		**97,937**	114,720
Distributions income		**77,750**	59,583
Investment income	3	**9,279,907**	1,577,534
Total net investment income		**10,345,491**	2,551,494
Expenses			
Fund manager's fees	14 (b)	**(421,680)**	(389,024)
Legal and professional		**(105,349)**	(118,926)
Directors' fees and expenses		**(171,250)**	(203,634)
Administration		**(839,819)**	(699,708)
Performance fees	14 (b)	**(996,230)**	-
Total expenses		**(2,534,328)**	(1,411,292)
Profit before income tax		**7,807,847**	1,140,202
Income tax expense	4 (a)	**(2,166,393)**	(204,926)
Profit after income tax		**5,644,770**	935,276
Net profit for the year attributable to members of Katana Capital Limited		**5,644,770**	935,276
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year attributable to the members of Katana Capital Limited		**5,644,770**	935,276
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the company:			
Basic and diluted earnings per share	18 (a)	**12.85**	2.10

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

	Notes	Consolidated At 30 June 2018 $	30 June 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	5	**11,625,349**	8,246,072
Trade and other receivables	6	**259,629**	2,563,796
Investments - held for trading	7	**31,355,593**	26,753,593
Other assets		**16,162**	6,304
Total current assets		**43,256,733**	37,569,765
Non-current assets			
Deferred tax assets	8	**-**	1,312,163
Total non-current assets		**-**	1,312,163
Total assets		**43,256,733**	38,881,928
LIABILITIES			
Current Liabilities			
Trade and other payables	9	**1,328,793**	1,270,022
Dividends payable		**-**	3,317
Income tax payable		**184,178**	1,596
Total current liabilities		**1,512,971**	1,274,935
Non-current liabilities			
Deferred tax liability	10	**459,770**	-
Total non-current liabilities		**459,770**	-
Total liabilities		**1,972,741**	1,274,935
Net assets		**41,283,992**	37,606,993
EQUITY			
Issued capital	11	**43,254,639**	44,234,488
Option premium reserve	12(a)	**-**	101,100
Profit reserve	12(b)	**3,801,519**	1,968,715
Accumulated losses	12(c)	**(5,772,166)**	(8,697,310)
Total equity		**41,283,992**	37,606,993

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

Consolidated	Notes	**Issued capital** **$**	**Option premium reserve** **$**	**Profit reserve** **$**	**(Accumulated losses)** **$**	**Total** **$**
Balance at 1 July 2016		**44,504,730**	**101,100**	**920,226**	**(7,245,412)**	**38,280,644**
Profit for the year		-	-	-	935,276	935,276
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**-**	**935,276**	**935,276**
Transfer from retained earnings to profit reserve	12(b)	-	-	2,387,174	(2,387,174)	-
Buy-back of shares, net of dividend reinvestment	11	(270,242)	-	-	-	(270,242)
Adjustment on transaction cost from prior year	11	-	-	-	-	-
Dividends provided for or paid	21	-	-	(1,338,685)	-	(1,338,685)
Balance at 30 June 2017		**44,234,488**	**101,100**	**1,968,715**	**(8,697,310)**	**37,606,993**
Balance at 1 July 2017		**44,234,488**	**101,100**	**1,968,715**	**(8,697,310)**	**37,606,993**
Profit for the year		-	-	-	5,644,770	5,644,770
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**-**	**5,644,770**	**5,644,770**
Transfer from retained earnings to profit reserve	12(b)	-	-	2,820,726	(2,820,726)	-
Buy-back of shares, net of dividend reinvestment	11	(979,849)	-	-	-	(979,849)
Dividend reinvestment plan	11	-	-	-	-	-
Adjustment on transaction cost from prior year	11	-	-	-	-	-
Transfer of option reserve	11	-	(101,100)	-	101,100	-
Dividends provided for or paid	21	-	-	(987,922)	-	(987,922)
Balance at 30 June 2018		**43,254,639**	**-**	**3,801,519**	**(5,772,166)**	**41,283,992**

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

	Notes	Consolidated 30 June 2018 $	30 June 2017 $
Cash flows from operating activities			
Proceeds on sale of financial assets		**101,722,340**	77,445,080
Payments for purchases of financial assets		**(95,609,662)**	(79,230,762)
Payments to suppliers and employees		**(1,518,397)**	(1,493,757)
Interest received		**97,913**	114,734
Dividends and distributions received		**854,928**	878,819
Other revenue		**11,804**	388
Tax (paid)		**(211,878)**	(56,869)
Net inflow/(outflow) from operating activities	15	**5,347,048**	(2,342,367)
Cash flows from financing activities			
Dividends paid		**(987,922)**	(1,338,685)
Payments for shares bought back		**(979,849)**	(270,242)
Net cash outflow from financing activities		**(1,967,771)**	(1,608,927)
Net increase/(decrease) in cash and cash equivalents		**3,379,277**	(3,951,294)
Cash and cash equivalents at the beginning of the financial year		**8,246,072**	12,197,366
Cash and cash equivalents at end of year	5	**11,625,349**	8,246,072

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

1 Corporate information

The financial report of Katana Capital Limited (the "Company") and its subsidiaries (the "Group" or the "Consolidated Entity") for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 25 September 2018.

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.

Changes in accounting policy and disclosures

The Group has adopted all the new and amended Australian Accounting Standards and AASB interpretations effective as at 1 July 2017. The nature and impact of each new standard and amendment is described below:

- AASB 2016-1 – *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* – make amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 107* – amends AASB 107 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, Share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- AASB 2017-2 – *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle* – clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operation in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Several amendments apply for the first time in 2017/2018. However, they do not materially impact the annual consolidated financial statements of the Group.

2 Summary of significant accounting policies (continued)

Accounting standards and interpretations issued but not yet effective.

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, as applicable, when they become effective. The Group is yet to assess the impact of the adoption of these standards and amendments on the financial statements, other than AASB 9 and AASB 15. The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective.

- AASB 9 *Financial Instruments*, and relevant amending standards (effective 1 July 2018)

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

The Group assessed that that there will be no significant impact expected upon adoption of this accounting standard on 1 July 2018.

- AASB 15 *Revenue from Contracts with Customers* (effective 1 July 2018)

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 *Leases* (or AASB 16 *Leases*, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

- ► Step 1: Identify the contract(s) with a customer
- ► Step 2: Identify the performance obligations in the contract
- ► Step 3: Determine the transaction price
- ► Step 4: Allocate the transaction price to the performance obligations in the contract
- ► Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group assessed that there will be no significant impact expected upon adoption of this accounting standard on 1 July 2018, apart from the recognition of the performance fee which is subject to the requirements on variable consideration under AASB 15.

2 Summary of significant accounting policies (continued)

- AASB 16 *Leases* (effective 1 July 2019)

AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

AASB 16 is effective for annual periods beginning on or after 1 July 2019. Early application is permitted, but not before an entity applies AASB 15.

- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (effective 1 July 2019)

This Standard amends AASB 9 *Financial Instruments* to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.

- AASB 2018-1 *Annual Improvements to IFRS Standards 2015-2017 Cycle* (effective 1 July 2019)

The amendments clarify certain requirements in:

► AASB 3 *Business Combinations* and AASB 11 *Joint Arrangements* - previously held interest in a joint operation
► AASB 112 *Income Taxes* - income tax consequences of payments on financial instruments classified as equity
► AASB 123 *Borrowing Costs* - borrowing costs eligible for capitalisation.

- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* (effective 1 July 2019)

This Standards amends AASB 119 *Employee Benefits* to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments:

► Require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event occurs
► Clarify that when such an event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

- AASB Interpretation 23, and relevant amending standards *Uncertainty over Income Tax Treatments* (effective 1 July 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

► Whether an entity considers uncertain tax treatments separately
► The assumptions an entity makes about the examination of tax treatments by taxation authorities
► How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
► How an entity considers changes in facts and circumstances.

2 Summary of significant accounting policies (continued)

- *Conceptual Framework for Financial Reporting, and relevant amending standards* (effective 1 July 2020)

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

► Chapter 1 – The objective of financial reporting
► Chapter 2 – Qualitative characteristics of useful financial Information
► Chapter 3 – Financial statements and the reporting entity
► Chapter 4 – The elements of financial statements
► Chapter 5 – Recognition and derecognition
► Chapter 6 – Measurement
► Chapter 7 – Presentation and disclosure
► Chapter 8 – Concepts of capital and capital maintenance

Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only the Group has:

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. 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.

2 Summary of significant accounting policies (continued)

(d) Investments and other financial assets

Financial assets are classified as either financial assets held for trading (financial assets at fair value through profit or loss), loans and receivables, held to maturity investments or available for sale investments, as appropriate.

When financial assets are initially recognised they are recorded at fair value, plus in the case of investments not held for trading, directly attributable transaction costs. The Fund Manager determines the classification of its financial assets on initial recognition.

(i) Financial assets held for trading

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

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

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

(ii) Loans and receivables

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

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

(iii) De-recognition of financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party lender under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(e) Revenue recognition

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

(i) Interest income

Interest income is recognised on an accruals basis using the effective interest method, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial instrument. Interest on cash on deposit is recognised in accordance with the terms and conditions that apply to the deposit.

(ii) Dividends and distributions

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

2 Summary of significant accounting policies (continued)

(f) Income tax

The income tax expense or revenue for the 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 or 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 comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

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

(h) Trade and other receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Receivables are recognised and carried at the original invoice amount and interest accrues (using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the effective life of the financial instrument) to the net carrying amount of the financial asset. Amounts are generally received within 30 days of being recorded as receivables.

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

(i) Trade and other payables

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

2 Summary of significant accounting policies (continued)

(j) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

(k) Goods and Services Tax (GST)

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

Reduced input tax credits (RITC) recoverable by the 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.

(l) Earnings per share

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

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

(m) Derivative financial instruments

The Group 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.

(n) Contributed equity

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

2 Summary of significant accounting policies (continued)

(o) Pension benefits

Defined contribution plan

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

(p) Share based payments

Equity settled transactions

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

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

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

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

- Non-vesting conditions that do not determine whether the Group or Company receives the services that entitle the employees to receive payment in equity or cash, and

- Conditions that are linked to the price of the shares of Katana Capital Limited (market conditions).

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

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

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

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

(c) The expired portion of the vesting period.

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

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

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

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

2 Summary of significant accounting policies (continued)

(p) Share based payments (continued)

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. Shares in the Group reacquired on-market are classified and disclosed as reserved shares and deducted from equity.

(q) Parent entity financial information

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

(r) 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.

3 Investment income

	Consolidated Year ended	
	30 June 2018	30 June 2017
	$	$
Realised gains / (losses) on investments held for trading	**6,182,678**	(1,183,998)
Unrealised gains on investments held for trading	**3,085,425**	2,761,143
Other	**11,804**	388
	9,279,907	1,577,543

4 Income tax expense

(a) Income tax expense

	Consolidated Year ended	
	30 June 2018	30 June 2017
	$	$
Current tax expense	**394,461**	65,485
Under provision of prior tax expense	**-**	26,872
Deferred tax expense	**1,771,933**	112,569
	2,166,393	204,926

Deferred income tax expense included in income tax expense comprises:

(Decrease)/Increase in deferred tax assets (Note 8)	**(1,273,489)**	(203,098)
(Increase)/decrease in deferred tax liabilities (Note 10)	**(498,444)**	90,529
	(1,771,933)	(112,569)

(b) Reconciliation of income tax expense to prima facie tax payable

	Consolidated Year ended	
	30 June 2018	30 June 2017
	$	$
Profit before income tax expense	**7,807,847**	1,140,202
Tax at the Australian tax rate of 30% (2017 - 30%)	**2,342,354**	342,061
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non - deductible expense	**111**	17,515
Under provision of prior tax expense	**-**	26,872
Franking credits denied	**(7,823)**	(5,396)
Franking credits	**83,283**	83,191
Franking rebate	**(251,532)**	(259,317)
Income Tax Expenses	**2,166,393**	204,926

5 Current assets - Cash and cash equivalents

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
Cash at bank	**11,625,349**	8,246,072
	11,625,349	8,246,072

6 Current assets - Trade and other current receivables

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
Unsettled trades - listed equities	**113,812**	2,511,263
Interest receivable	**32**	9
Distribution receivable	**-**	4,196
Dividend receivable	**145,785**	48,328
	259,629	2,563,796

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 - Investments held for trading

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
Equity securities	**29,256,587**	24,400,440
Australian listed trusts	**1,699,006**	1,953,153
Australian unlisted company	**400,000**	400,000
	31,355,593	26,753,593

Held for trading 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

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
The balance comprises temporary differences attributable to:		
Other		
Investments and unsettled shares	**30,927**	1,607,981
Provisions	**376,643**	64,816
Other	**3,844**	12,106
Total deferred tax assets	**411,414**	1,684,903
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 10)	**(411,414)**	(372,740)
Net deferred tax assets	**-**	1,312,163

The deferred tax asset is recognised as an asset at this time due to the Company's view that utilising the tax asset is considered probable.

9 Current liabilities - Trade and other payables

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
Unsettled trades - listed equities	**103,089**	1,053,969
Management fee - Katana Asset Management Ltd	**136,532**	118,018
Trade creditors	**41,600**	40,800
Performance fee payable	**996,230**	-
Custody fees payable	**23,397**	57,534
Other payables	**27,945**	(299)
	1,328,793	1,270,022

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

10 Non-current liabilities - Deferred tax liabilities

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
The balance comprises temporary differences attributable to:		
Deferred tax liabilities		
Investments and unsettled shares	**771,375**	316,191
Dividends receivable	**43,736**	14,498
Other	**56,073**	42,051
Total Deferred tax liabilities	**871,184**	372,740
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 8)	**(411,414)**	(372,740)
Net deferred tax liabilities	**459,770**	-

11 Issued capital

	Consolidated entity At		Consolidated entity At	
	30 June 2018	30 June 2017	**30 June 2018**	30 June 2017
	Shares	Shares	**$**	$
Ordinary shares fully paid	**43,080,100**	44,312,362	**43,254,639**	44,234,488

(a) Movements in ordinary share capital:

Date	Details	Number of shares	$
1 July 2016	**Opening balance**	44,683,578	44,504,730
	Buy-back of shares, net of dividend reinvestment plan	(371,216)	(270,242)
30 June 2017	**Balance**	44,312,362	44,234,488
1 July 2017	**Opening balance**	44,312,362	44,234,488
	Buy-back of shares, net of dividend reinvestment plan	(1,232,262)	(979,849)
30 June 2018	**Balance**	43,080,100	43,254,639

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

During the period from 1 July 2017 to 30 June 2018, 1,232,262 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.76 with the price ranging from $0.70 to $0.81 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 buyback 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 buyback 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 favourable costs of capital or high returns on assets. The Group defines its capital as the total funds under management, being $43,256,733 at 30 June 2018 (30 June 2017: $38,881,928), 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

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
(a) Reserves		
Option premium reserve	**-**	101,100
	-	101,100

The option premium reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. This amount was transferred to accumulated losses during the year.

(b) 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 were as follows:

	Consolidated At	
	30 June 2018	30 June 2017
Opening balance	**1,968,715**	920,226
Transferred from retained earnings (i)	**2,820,726**	2,387,174
Dividends paid	**(987,922)**	(1,338,685)
	3,801,519	1,968,715

(i) The amount transferred to profit reserve are 50% of profits for the year in accordance with a resolution of the Board of Directors (2017: profits for the months July 2016, August 2016, November 2016, December 2016, January 2017, March 2017 and June 2017 in accordance with the standing resolution of the Board of Directors.)

(c) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated At	
	30 June 2018	30 June 2017
	$	$
Opening balance	**(8,697,310)**	(7,245,412)
Net profit after tax attributable to members of the Company	**5,644,770**	935,276
Transfer to profit reserves	**(2,820,726)**	(2,387,174)
Transfer from option reserve	**101,100**	-
Closing balance	**(5,772,166)**	(8,697,310)

13 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated Year ended 30 June 2018 $	30 June 2017 $
Short-term employee benefits		
- Director fees	**150,000**	150,000
Post-employment benefits	**14,250**	14,250
	164,250	164,250

14 Related party transactions

(a) Directors

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

(b) Related party transactions

All related party transactions are made at arm's length on normal commercial terms and conditions.

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

Related parties during the year are outlined below:

Director related:

Dalton Gooding is a partner of Gooding Partners Chartered Accounting firm and as part of providing taxation advisory services, Gooding Partners received $36,465 (2017: $34,976) 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 $421,680 to the Fund Manager for management services provided during the year (2017: $389,024). There was a performance fee of $996,230 due to the Fund Manager for the year (2017: $nil). The Fund Manager and its directors have the following shareholdings:

2018

Name	Balance at the start of the year	Other changes during the year (net purchases)	Balance at the end of the year
Brad Shallard	4,103,382	163,112	4,266,494
Romano Sala Tenna	4,596,613	188,152	4,784,765

2017

Name	Balance at the start of the year	Other changes during the year (net purchases)	Balance at the end of the year
Brad Shallard	3,944,092	159,290	4,103,382
Romano Sala Tenna	4,387,502	209,111	4,596,613

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

	Consolidated Year ended	
	30 June 2018 $	30 June 2017 $
Profit for the year	**5,644,770**	935,276
Increase in financial assets held for trading	**(3,155,429)**	(3,188,610)
(Increase) / decrease in trade and other receivables	**(103,142)**	22,809
Decrease in deferred tax assets	**1,312,163**	114,165
Decrease/(increase) in trade and other payables	**1,006,334**	(259,898)
Increase in deferred tax liabilities	**459,770**	-
Increase in current tax liabilities	**182,582**	33,892
Net cash inflow/(outflow) from operating activities	**5,347,048**	(2,342,367)

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.

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

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

(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;

16 Financial risk management (continued)

(a) Mandate (continued)

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

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

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

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

The Mandate specifies the following risk control features:

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

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

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

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

(b) Portfolio composition and management

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

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

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

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

16 Financial risk management (continued)

(c) Asset allocation

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

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

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

(d) Market risk

Market risk is the risk that changes in foreign exchange rates, interest rates and prices will affect the 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 held for trading. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

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

The table on page 36 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 2018. The analysis is based on the assumptions that the index increased/decreased by 10% (2017: 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 $31,355,593 (2017: $26,753,593) that represented the maximum exposure as at reporting date.

(ii) Foreign exchange risk

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

(iii) Interest rate risk

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

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

16 Financial risk management (continued)

(d) Market risk (continued)

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

	Weighted Average Interest Rate (% p.a.)	Year ended Consolidated 30 June 2018	30 June 2017
Financial Assets			
Cash and short term deposits - floating	**1.43**%	**11,625,349**	8,246,072

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 (2017: +/- 50 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of fixed interest securities.

(e) Summarised sensitivity analysis

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

	Price Risk			
	-10%	+10%	-10%	+10%
	Impact on Operating Profit		Impact on Other Comprehensive Income	
30 June 2018	**(3,135,559)**	**(3,135,559)**	-	-
30 June 2017	(2,675,359)	2,675,359	-	-

	Interest Rate Risk			
	-50bps	+50bps	-50bps	+50bps
	Impact on Operating Profit		Impact on Other Comprehensive Income	
30 June 2018	**(58,127)**	**58,127**	-	-
30 June 2017	(41,230)	41,230	-	-

(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 2018 the Group does not hold any debt securities (30 June 2017: 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 2018 the Group held no Exchange Traded Options (30 June 2017: nil).

16 Financial risk management (continued)

(f) Credit risk (continued)

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 2018 (30 June 2017: $nil).

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

(h) Fair value measurements

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

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

(a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
(b) Level 2 - valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
(c) Level 3 - valuation technique for which the lowest level input that is significant to the fair value movement that is not observable.

16 Financial risk management (continued)

(h) Fair value measurements (continued)

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

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

Group - as at 30 June 2018	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Assets				
Financial assets held at fair value through profit and loss				
- Equity securities	**29,256,587**	**-**	**-**	**29,256,587**
- Listed unit trusts	**1,699,006**	**-**	**-**	**1,699,006**
- Unlisted unit trusts	**-**	**-**	**400,000**	**400,000**
Total Assets	**30,955,593**	**-**	**400,000**	**31,355,593**
Liabilities				
Financial liabilities held at fair value through profit and loss				
- Options	**-**	**-**	**-**	**-**
Total Liabilities	**-**	**-**	**-**	**-**

Group - as at 30 June 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial Assets held at fair value through profit and loss				
- Equity securities	24,400,440	-	-	24,400,440
- Listed unit trusts	1,953,153	-	-	1,953,153
- Unlisted unit trust	-	-	400,000	400,000
Total assets	26,353,593	-	400,000	26,753,593
Liabilities				
Financial liabilities held at fair value through profit and loss				
- Options	-	-	-	-
Total Liabilities	-	-	-	-

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.

16 Financial risk management (continued)

(h) Fair value measurements (continued)

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

The following table presents the changes in level 3 instruments for the year ended 30 June 2018:

Group	**2018 $**	**2017 $**
Opening balance	**-**	**-**
Transfer out to Level 1	-	**-**
Closing balance	**-**	-

17 Segment reporting

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

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

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

18 Earnings per share

(a) Basic earnings per share:

	Consolidated Year ended	
	30 June 2018 Cents	30 June 2017 Cents
Profit per share attributable to the ordinary equity holders of the Company	**12.85**	2.10

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

	Consolidated Year ended	
	30 June 2018 $	30 June 2017 $
Basic earnings per share		
Profit from continuing operations	**5,641,454**	935,276
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**5,641,454**	935,276

18 Earnings per share

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

	Consolidated Year ended 30 June 2018 Number	Consolidated Year ended 30 June 2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**43,896,154**	44,582,098
Adjustments for calculation of diluted earnings per share:		
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**43,896,154**	44,582,098

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 23 July 2018, the company announced a 30% franked 1 cent per share dividend.

20 Remuneration of auditors

	Consolidated Year ended 30 June 2018 $	Consolidated Year ended 30 June 2017 $
(a) Audit services		
Ernst & Young Australia		
Audit and review of financial reports	**60,100**	58,800
Total remuneration for audit and other assurance services	**60,100**	58,800
(b) Non-audit services		
Other services	-	-
Total remuneration for other assurance services	-	-

21 Dividends

		Parent entity Year ended 30 June 2018 $	30 June 2017 $
Dividend paid during 1st Quarter of the year	Total Paid	**221,403**	670,105
	Cents per share	**0.5 cents**	1.5 cents
Dividend paid during 2nd Quarter of the year	Total Paid	**220,667**	223,282
	Cents per share	**0.5 cents**	0.5 cents
Dividend paid during 3rd Quarter of the year	Total Paid	**219,084**	223,094
	Cents per share	**0.5 cents**	0.5 cents
Dividend paid during 4th Quarter of the year	Total Paid	**326,768**	222,204
	Cents per share	**0.75 cents**	0.5 cents
Total dividends paid and payable		**987,922**	1,338,685

	Consolidated Year ended 30 June 2018 $	30 June 2017 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	**83,283**	83,866

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

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

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

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

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

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

22 Parent entity financial information

	Parent Entity As at 2018 $	2017 $
Balance sheet		
Current assets	**43,256,733**	37,657,864
Non-current assets	**-**	1,312,163
Total assets	**43,256,733**	38,970,027
Current liabilities	**1,604,386**	1,363,034
Non-current liabilities	**459,770**	-
Total liabilities	**2,064,156**	1,363,034
Shareholders' equity		
Contributed equity	**43,254,639**	44,234,488
Option premium reserve	**-**	101,100
Profit reserve	**3,801,519**	1,968,715
Accumulated loss	**(5,775,482)**	(8,697,310)
	41,280,676	37,606,993
Profit or loss for the year	**5,641,454**	935,276
Total comprehensive income	**5,641,454**	935,276

Investment in controlled entity at cost

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

Tax consolidation legislation

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

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

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

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

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

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

23 Commitments and contingencies

There are no outstanding contingent liabilities or commitments as at 30 June 2018 (30 June 2017: Nil).

Directors' declaration

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

(a) The financial statements and notes of the consolidated entity set out on pages 13 to 43 are in accordance with the *Corporations Act 2001*, including

(i) Giving a true and fair view of the financial position as at 30 June 2018 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 2018.

On behalf of the Board
Katana Capital Limited

Dalton Gooding
Chairman

25 September 2018
Perth, Western Australia

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Perth WA 6000 Australia
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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 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow 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 2018 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* (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.

1. Investment existence and valuation

Why significant	How our audit addressed the key audit matter
As a listed investment company, the Group has a significant investment portfolio consisting primarily of listed equities. As set out in Note 7 of the financial report, the value of these financial assets as at 30 June 2018, was $31.356 million which equates to 72% of the total assets held by the Group. As detailed in the Group's accounting policies, and as described in Note 2(d) to the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards. Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore valuation of the investment portfolio is considered a key area of focus.	We agreed a sample of investment holdings to the confirmation received from the custodian as at 30 June 2018. We obtained and considered the assurance report on the controls of the Group's administrator, in relation to the Investment Administration Services and Custody Services it provided for the year ended 30 June 2018 and considered the auditor's qualifications, competence, objectivity and the results of their procedures. We assessed the fair value of a sample of investments in the portfolio held at 30 June 2018. For listed securities, the values were agreed to independently sourced market prices. We assessed the adequacy of the disclosure in Note 7 of the financial report.

2. Management and performance fees

Why significant	How our audit addressed the key audit matter
Management and performance fees paid to the fund manager, Katana Asset Management Ltd, are significant expenses to the Group. As at 30 June 2018, management and performance fees totalled $1.418 million which equates to 56% of total expenses. The Group's accounting policy for management and performance fees is described in Note 2(i) 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 have been met and the liability have been crystallised.	We performed a recalculation of management and performance fees in accordance with the contractual arrangements including agreeing the contract rate to the calculation. We assessed the performance fee eligibility calculations including considering the inputs into the calculation model and whether the methodology was in accordance with the underlying contractual arrangements. We assessed the adequacy of the disclosure in Note 14 of the financial report.

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 Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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, related safeguards.

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 5 to 10 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Katana Capital Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
25 September 2018