



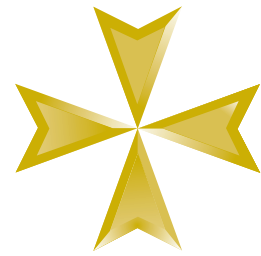
KNIGHTS CAPITAL GROUP LIMITED

2010 ANNUAL REPORT



KNIGHTS CAPITAL GROUP

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KNIGHTS

18 October, 2010

Dear Shareholder,

It is with pleasure that I present the 2010 Annual Report.

In contrast to the preceding year, the 2009/2010 financial year saw the return to more stable economic and trading conditions throughout the world. However, the ongoing impact of global financial crisis on the United States and Europe is still a major concern. Australia has fared much better and Western Australia in particular has shown great resilience aided by its burgeoning resources sector.

From the Group's perspective, the improved conditions were reflected over the year via a small increase of 3.5% in **net asset backing per share to \$0.87** (2009:\$0.84). Knights Capital Management Pty Ltd (a fully owned subsidiary) provided a positive contribution in its first year as the fund manager for the **Knights Tourist Park Fund** and the **Knights Coastal Land Fund**.

The Board has welcomed the introduction of the solvency test in determining the payment of dividends to shareholders. The Group has established a dividend policy to recommend dividends on a half-yearly basis. The payment of dividends will be subject to a number of factors including the level of cash reserves; working capital requirements; investment opportunities; and the prospective performance of the Group's existing investments.

The Directors are pleased to advise that a **fully franked dividend of 0.5 cents per share** has been recommended for the six month period from 1 January 2010 to 30 June 2010 which together with the 2009/2010 annual increase in net asset backing per share has delivered a 4.17% income and capital share growth for the year. The dividend is subject to the passing of a special resolution modifying the Constitution at the Group's Annual General Meeting.

I would encourage shareholders to regularly visit the Group's web page www.knightsgroup.com.au to keep abreast of the latest developments and activities in the Group. I also recommend to shareholders the Managing Director's Review that follows.

Please find enclosed the Notice of Annual General Meeting and Proxy Appointment Form for 2010 and the Financial Statement for the year ended 30 June 2010. The meeting has been convened for **10.00 am on 23rd November 2010 at Level 1, 20 Kings Park Road, West Perth**. I look forward to seeing you there.

Yours sincerely

Selwyn Bajada
Executive Chairman

Managing Director's Review

2009/2010

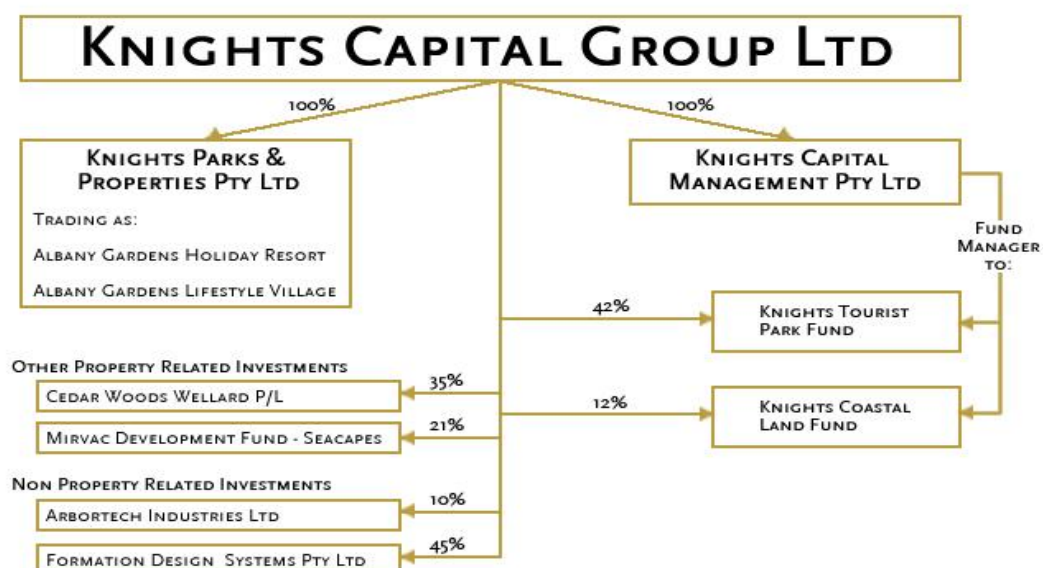
Introduction

The 2009/2010 financial year was a very busy one for the Group. A significant part of management's time this year was allocated to Knights Capital Management Pty Ltd in its adopted role as fund manager to the Knights Tourist Park Fund and Knights Coastal Land Fund.

Financial - Key Group Performance Indicators

- Total assets increased by \$604,800 to **\$27,084,515** (2209: 26,479,716) comprised of :
 - An increase in unlisted equity securities to **\$19,726,513** (2009: 18,379,830);
 - An increase in property, plant and equipment to **\$3,295,135** (2009: 2,976,783);
 - A decrease in fair value of the investment property to **\$2,090,000** (2009: 3,650,494).
- Net Assets increased by \$649,371 to **\$23,515,256** (2009: 22,865,885).
- Net Asset Backing per share increased \$0.03 to **\$0.87** (2009: \$0.84).
- An increase in cash to **\$566,925** (2009: 61,735).
- Loss after Tax of \$ **\$1,075,163** (2009: (\$4,733,206)). Other Comprehensive Income of **\$1,724,534** (2009: Nil)
- Recommended fully franked dividend for six months to 30 June 2010 of **0.5 cents per share**.
- A decrease in Gearing to **9.6%** (2009: 11.9%).

Knights Group Corporate Structure



Operations and Investments

Knights Parks & Properties Pty Ltd (“KP&P”) – Group Interest 100%

KP&P holds the Group’s interest in the Albany Gardens Holiday Resort (“**AGHR**”) and Albany Gardens Lifestyle Village (“**AGLV**”). KP&P’s business growth moderated in the financial year principally due to a lesser number of park home sales by AGLV. AGHR revenue was steady, with total combined revenue decreasing to \$2,942,349 (2009:\$3,417,795). A net loss of \$1,175,046 (2009:\$277,370 profit) was recorded for the period, driven largely by the impairment of Albany Gardens Lifestyle Village. In September 2010, the Bankwest borrowing facilities were successfully extended to January 2012.

At the individual business level, AGHR occupancy levels for the year continued to be favourable. As foreshadowed last year, online marketing and booking facilitation have emerged as the key drivers for growth in the accommodation sector. Accordingly, we recently upgraded the web page www.albanygardens.com.au and added online booking, Facebook, Twitter and Blog functionality.

AGLV (which adjoins AGHR) is a park home development which again progressed very well during the year. We are pleased to advise that, at the time of writing, there were no more available sites for occupation. Of the 45 sites, 36 sites were occupied via long-term lease agreements (generating a rental of \$115.00 per week per home); 3 park homes were scheduled for delivery by calendar year end; and 6 sites have been secured by deposits.

Construction of the tenants’ common facilities building commenced in August 2010 and is scheduled for completion in November 2010.

Knights Capital Management Pty Ltd (“KCM”) – Group Interest 100%

In July and September 2009, KCM was appointed as the fund manager to the Knights Tourist Park Fund (formerly Mirvac Tourist Park Fund) and Knights Coastal Land Fund (formerly Mariner Coastal Land Fund) respectively. As previously mentioned, the administrative transition of both funds to the Group occupied a considerable amount of management’s time. Notwithstanding, it was pleasing to see KCM contribute revenue to the Group (through fund management fees) of \$417,948 (2009: Nil) and a net profit of \$157,754 (2009: (\$24,748)).

Knights Tourist Park Fund (“KTPF”) – Group Interest 42.6%

Established in 2004, the Fund has 100% ownership of the 4 star Freespirit Resort in Darwin (NT) and 4.5star Fraser Lodge Holiday Park in Hervey Bay (QLD).

As at 30th June 2010, the Fund size was \$ 33.8 million with a net tangible asset per unit of \$0.95 (2009:\$1.04). For this interest, the Group reflects a carrying value in the accounts of \$5,235,083 (2009:\$5,754,306) and a current year impairment loss of \$519,223. For the financial year, the Group received Fund distributions totaling \$276,100. Shareholders are invited to review KTPF’s operations and investor updates at: www.knightsgroup.com.au/knightstourist

Knights Coastal Land Fund (“KCLF”) – Group Interest 11.6%

Established in 2005, KCLF has a 55% interest in the 5 star Blue Dolphin Holiday Resort located in Yamba on the mid-north coast of NSW.

As at 30 June 2010, the Fund size was \$9.8 million with a net tangible asset per unit of \$0.39 (2009:\$0.54). For this interest, the Group reflects a carrying value in the accounts of \$1,145,129 (2009:1,569,086) and a current year impairment loss of \$336,508 after adjusting for a \$0.03 cents per unit return of capital (\$87,450) following the sale of the Yamba Waters Caravan Park in November 2009.

For the financial year, the Group received Fund income distributions totaling \$34,980.

Shareholders are invited to review the KCLF’s operations and investor updates at: www.knightsgroup.com.au/knightscoastal

Mirvac Development Fund- Seascapes – Group Interest 21.9%

Established in 2005 and project managed by Mirvac Funds Management Ltd, the Fund owns 100% of this major land sub-division located 75kms south of Perth CBD in the City of Mandurah.

As at 30th June 2010, the Fund size was \$32.1 million (2009: \$30.3m) with a net tangible asset per unit of \$1.60 (\$1.40) an increase of 14.3% over the year. For this interest, the Group reflects a carrying value in the accounts of \$4,412,800 (2009:\$3,865,341) and a current year unrealised gain of \$547,459.

The Seascapes Project is a ten stage programme to sell 530 lots of which 345 lots (or 65%) have been either sold or exchanged. Going forward, sales are expected to remain steady but subdued given the softening in demand and lack of buyer confidence. The Manager forecasts a further pre-tax return of \$2.42 per unit to be distributed to investors progressively from mid-calendar 2011 and after total debt repayment. Shareholders are invited to review the Fund's operations and investor updates at: www.mirvac.com/mdfs

Cedar Woods Wellard Ltd – Group Interest 35%

Established in 2006 and project managed by Cedar Woods Ltd, this Project –Emerald Park– involves the development of a 47 hectare parcel of land into residential lots. The land is located in Wellard, 32 km south of Perth CBD.

The total lot yield for Emerald Park is estimated at 620 lots. Final lot yield will be dependent upon market demand for various lot sizes. Sales of lots in Stages 1 and 2 are progressing well and principally targeted at the first home buyers market.

For this interest, the Group reflects a carrying value in the accounts of \$4,740,719 (2009: \$2,998,314) and a current year unrealised gain of \$1,742,405. As at 30 June 2010, Company net assets were \$13.5 million with a net tangible asset per share of \$0.85 (2009:\$0.61). Shareholders are invited to review the Company's operations at: www.emeraldpark.com.au

Arbortech Industries Ltd – Group Interest 10%

The principal activities of Arbortech were the manufacture and sale of its range of cutting tools and accessories for the Allsaw and Woodcarver technologies. In July 2010, the Arbortech Board appointed US corporate advisers to assist with implementation of its global strategy. A Scoping Study has already identified several opportunities which are presently being evaluated. The carrying value of the Group's investment was maintained at \$4,192,784. Shareholders are referred to Arbortech's web site at www.arbortech.com.au for further information on products and activities.

Formation Design Systems Pty Ltd – Group Interest 45%

The principal activities of Formation were the development and distribution of its computer aided design software suite of products to the marine, shipbuilding and construction industries.

Formation was able to generate revenues of \$2,052,354 and a profit from ordinary activities after income tax of \$32,017. This investment is accounted for by the Group using the equity method which resulted in a share of the net profit (\$14,408) and net assets (\$493,763) being incorporated into the Group consolidated accounts. During the year, the Group received a dividend from Formation of \$22,500 (2009:\$90,000).

In last year's Report, reference was made to an indicative offer to acquire Formation by an international company. Regrettably, this transaction did not proceed through to completion. The Formation Board has since appointed a local corporate advisory firm to assist it with identifying alternative participants within this sector who could benefit through an alliance with Formation. At the time of writing, two companies have expressed a genuine interest which may lead to a transaction being concluded.

Shareholders are referred to Formation's web site at www.formsys.com for further information on products and activities.

Corporate

An amendment to the Corporations Act has been passed by Federal Parliament which introduces a new test (the solvency test) which will enable a company to pay dividends provided it can satisfy the following: assets exceed its liabilities (and the excess allows for the payment of the dividend); the payment of the dividend is fair and reasonable to its shareholders as a whole; and that the dividend does not materially prejudice the company's ability to pay its creditors.

The Board has welcomed this change and accordingly, implemented a dividend policy as previously expressed. A maiden fully franked dividend of 0.5 cents per share has been recommended for the six month period from 1 January 2010 to 30 June 2010. The dividend is subject to the passing of a special resolution modifying the Constitution at the Group's Annual General Meeting.

At financial year end, the Company's issued ordinary capital totaled 27,086,183.



Selwyn Bajada
Managing Director

Knights Capital Group Limited
ABN 39 072 769 174

Financial Statement
30 June 2010

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Knights Capital Group Limited

Directors' report

For the year ended 30 June 2010

The directors present their report together with the financial statement of Knights Capital Group Limited ('the Company') and of the Group, being the Company and its subsidiaries, for the financial year ended 30 June 2010 and the auditor's report thereon.

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Knights Capital Group Limited

Directors' report (continued)

For the year ended 30 June 2010

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

<i>Name, qualifications and independence status</i>	<i>Age</i>	<i>Experience, special responsibilities and other directorships</i>
<u>Selwyn BAJADA</u> <i>B. Juris., LLB, B. Comm., SF Fin, MAICD</i> Executive Chairman and Managing Director	53	Mr Bajada has extensive experience as a corporate adviser and funds manager to the Knights Group. He is a Senior Fellow of The Financial Services Institute of Australasia (formerly a Fellow of The Securities Institute of Australia). He is the Chairman of Formation Design Systems Pty Ltd and a Non-Executive Director of Arbortech Industries Limited and Cedar Woods Wellard Limited. Director since 1996.
<u>Ron PETERSON</u> CA, FTIA Non-Executive Director	49	Mr Peterson is a partner / Director of Harden East & Conti Pty Limited. Director since 30 December, 2008.
<u>Basil CONTI</u> <i>FCA, ACIM</i> Non-Executive Director Company Secretary	64	Mr Conti is a partner / Director of Harden East & Conti Pty Limited. He is the Chairman of Macquarie Harbour Mining Ltd. Director since 1996.

2. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	<u>Attended</u>	<u>Held</u>
Selwyn John BAJADA	2	2
Basil CONTI	2	2
Ron PETERSON	1	2

3. Principal activities

The principal activities of the Group during the course of the financial year were its operation (through its fully owned subsidiary Knights Parks & Properties Pty Ltd ('KP&P')) of the Albany Gardens Holiday Resort and the development of the Albany Gardens Lifestyle Village; its investments in Arbortech Industries Ltd, Formation Design Systems Pty Ltd and Knights Capital Management Pty Ltd (previously Meme Capital Management Pty Ltd); and its investment in listed and unlisted securities (see Note 16). Through its fully owned subsidiary Knights Capital Management Pty Ltd the Group also engaged in fund management activities. Knights Capital Management Pty Ltd was appointed Fund Manager to Knights Tourist Park Fund (formerly Mirvac Tourist Park Fund) and Knights Coast Land Fund (formerly Mariner Coastal Land Fund) in July 2009 and September 2009 respectively.

With the exception of the fund management activities referred to above, there were no significant changes in the nature of the activities of the Group during the year.

Knights Capital Group Limited

Directors' report (continued)

For the year ended 30 June 2010

4. Review and results of operations

Company Overview

The consolidated income statements show a consolidated loss after tax attributable to members of \$1,075,163 compared with a loss after tax of \$4,733,206 in 2009.

There were no changes or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

Significant changes in the state of affairs

The consolidated entity's total assets increased by \$604,800 to \$27,084,515 (2009: \$26,479,716) over the year. The increase in total assets principally comprised:

- The increase in unlisted equity securities to \$19,726,513 (2009: \$18,379,830) (see Note 15);
- The increase in property, plant & equipment to \$3,295,135 (2009: \$2,976,783) (see Note 20);
- The decrease in fair value of the investment property with improvements held by KP&P to \$2,090,000 (2009: \$3,650,494) (see Note 18); and
- The increase in cash to \$566,925 (2009: \$61,735) (see Note 12).

The Consolidated entity's gearing (defined as the ratio of net debt to net debt plus net assets) decreased to 9.6% (2009: 11.9%) following the increase in net assets.

The Company's fully paid ordinary shares total 27,086,183.

5. Remuneration report

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company including the Managing Director of the Company and other executives.

Mr S Bajada is the Managing Director of Bajada & Associates Pty Ltd which acts as Manager of the Company. The Manager is entitled to receive management and performance fees calculated in accordance with the Management Agreement and the Knights Capital Fund Deed.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders is not to exceed \$50,000 per annum and is set with reference to fees paid to other non-executive directors of comparable companies.

Details of the nature and amount of each major element of remuneration of each director of the Company are:

		Salary & fees	Director's fees	Non-monetary benefits	Total
Executive director					
Mr S Bajada	2010	205,182	-	34,208	239,390
	2009	184,045	-	14,467	198,512
Non-executive directors					
Mr B Conti	2010	-	-	-	-
	2009	-	10,000	-	10,000

Knights Capital Group Limited

Directors' report (continued)

For the year ended 30 June 2010

6. Dividends

No dividends were paid during the year. In respect of the financial year ended 30 June 2010, the directors recommend the payment of a fully franked dividend of 0.5 cents per share. This recommendation is subject to the Company's Constitution being modified at the Company's 2010 Annual General Meeting to reflect the recent changes to the Corporations Act in regards to circumstances in which dividends may be paid. The dividend has not been provided for in the 30 June 2010 Financial Statements.

7. Events Subsequent to Reporting Date

In September 2010, Knights Parks & Properties Pty Ltd accepted a variation to the existing debt facilities with Bankwest Ltd. The principal variation is an extension of the facilities to 31 January 2012.

Other than the above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

8. Likely developments

Other than the matters discussed above, the Company will continue to pursue its policy of maintaining and seeking direct equity investments; the development of its fully owned subsidiaries KP&P and KCM; and its investments in listed & unlisted securities.

9. Registered office

The registered office of the Company is:

Level 1,
20 Kings Park Road
West Perth WA 6005

10. Directors' interests

The relevant interest of each director in the share capital of the Company at the date of this report is as follows:

	Knights Capital Group Limited Ordinary Shares
Mr S J Bajada	1,023,372
Mr. RC Peterson	-
Mr B A Conti	5,000

11. Indemnification and insurance of officers and auditors

Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been made an officer or auditor of the controlled entity.

Insurance premiums

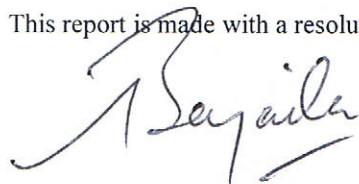
During the financial year the Company paid a premium of \$5,830 in respect of Directors' and Officers' Legal Expenses Insurance.

Knights Capital Group Limited
Directors' report (continued)
For the year ended 30 June 2010

12. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 7 and forms part of the directors' report for financial year ended 30 June 2010.

This report is made with a resolution of the directors:



Selwyn John BAJADA
Director

Date: 14th October, 2010

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF
KNIGHTS CAPITAL GROUP LIMITED
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

- [i] No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and,
- [ii] No contraventions of any applicable code of professional conduct in relation to the audit.



ACCRU⁺ PAGE KIRK & JENNINGS
Chartered Accountants



GRAEME ROBERT JENNINGS
Auditor

Dated: 14 October 2010
West Perth, WA

Knights Capital Group Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2010

	<i>Note</i>	2010	2009
Revenue	6	3,360,297	3,420,624
Cost of sales		(1,568,016)	(2,018,071)
Gross profit		1,792,282	1,402,553
Other income	7	6,902	17,212
Administrative expenses		(338,708)	(363,078)
Other expenses	8	(1,001,714)	(770,099)
Results from operating activities		458,762	286,588
Financial income	10	318,031	422,074
Financial expenses	10	(181,912)	(436,645)
Impairment of investment property	10	(1,616,843)	-
Impairment of financial assets	10	-	(5,109,977)
Net financing (costs)		(1,480,724)	(5,124,548)
Share of profit of equity accounted investees	17	14,408	104,754
Profit/(Loss) before income tax		(1,007,554)	(4,733,206)
Income tax expense	11	(67,609)	-
Profit/(Loss) for the year		(1,075,163)	(4,733,206)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		-	-
Other comprehensive income for the period net of tax:			
Net gain on revaluation of land and buildings		291,363	-
Net gain on revaluation of financial assets		1,433,171	-
Total other comprehensive income for the period		1,724,534	-
Total comprehensive income for the year		649,371	(4,733,206)
Profit/(Loss) attributable to equity holders of the parent		(1,075,163)	(4,733,206)
Total comprehensive income attributable to equity holders of the parent		649,371	(4,733,206)

This statement of comprehensive income is to be read in conjunction with the accompanying notes to the financial statements set out on pages 12 to 41.

Knights Capital Group Limited

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	<i>Note</i>	Issued Capital	Fair Value Reserve	Accumulated Profit/(Losses)	Total Equity
Balance as at 1 July 2008		30,752,488	2,455,167	(5,638,004)	27,569,652
Issue of ordinary shares		29,440	-	-	29,440
Repurchase of Convertible notes		-	-	-	-
Total recognised income and expense		-	-	(4,733,206)	(4,733,206)
Balance as at 30 June 2009		30,781,928	2,455,167	(10,371,210)	22,865,885
Balance as at 1 July 2009		30,781,928	2,455,167	(10,371,210)	22,865,885
Total other comprehensive income for the year		-	1,724,534	-	1,724,534
Profit/(loss) attributable to equity holders		-	-	(1,075,163)	(1,075,163)
Balance as at 30 June 2010	26	30,781,928	4,179,701	(11,446,373)	23,515,256

The statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements set out on pages 12 to 41.

Knights Capital Group Limited

Consolidated Statement of Financial Position

As at 30 June 2010

	<i>Note</i>	2010	2009
Assets			
Current Assets			
Cash and cash equivalents	12	566,925	61,735
Trade and other receivables	13	207,275	305,805
Inventories	14	156,790	50,157
Other		62,088	62,725
Total current assets		993,078	480,422
Non-current Assets			
Financial Assets	15	19,892,072	18,551,795
Investments in equity accounted Investees	17	493,763	501,855
Investment property	18	2,090,000	3,650,494
Deferred tax assets	19	2,100	-
Property, plant and equipment	20	3,295,135	2,976,783
Intangible assets	21	318,367	318,367
Total non-current assets		26,091,437	25,999,294
Total assets		27,084,515	26,479,716
Liabilities			
Current Liabilities			
Loans and borrowings	25	3,063,469	17,025
Trade and other payables	22	371,789	387,786
Provisions	23	24,673	17,742
Current tax liability	16	69,709	-
Other financial liabilities	24	39,620	127,810
Total current liabilities		3,569,260	550,363
Non-current Liabilities			
Loans and borrowings	25	-	3,063,468
Total non-current liabilities		-	3,063,468
Total liabilities		3,569,260	3,613,831
Net assets		23,515,256	22,865,885
Equity			
Issued capital	26	30,781,928	30,781,928
Reserves		4,179,701	2,455,167
Accumulated losses		(11,446,373)	(10,371,210)
Total equity attributable to the equity holders of the company		23,515,256	22,865,885

This statement of financial position is to be read in conjunction with the accompanying notes to the financial statements set out on pages 12 to 41.

Knights Capital Group Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2010

	<i>Note</i>	2010	2009
Cash flows from operating activities			
Cash receipts from customers		3,310,817	3,428,454
Cash paid to suppliers and employees		(2,968,539)	(3,321,961)
Cash generated from operations		342,278	106,493
Interest paid		(266,407)	(305,140)
Net cash from operating activities	30	75,871	(198,647)
Cash flows from investing activities			
Proceeds from sale of investments		208,664	61,028
Interest received	10	6,951	3,064
Dividends received		22,500	90,000
Distributions received		460,473	114,077
Acquisition of/improvements to investment property	18	(56,349)	(251,609)
Return of Capital from other investments		87,450	52,500
Proceeds from sale of property, plant and equipment		135	-
Acquisition of property, plant and equipment	20	(86,113)	(30,774)
Acquisition of other investments		(197,368)	(57,003)
Net cash from investing activities		446,343	(18,717)
Cash flows from financing activities			
Repayment of borrowings		(17,024)	(15,502)
Net cash from financing activities		(17,024)	(15,502)
Net increase/(decrease) in cash and cash equivalents		505,190	(232,867)
Cash and cash equivalents at 1 July		61,735	294,602
Cash and cash equivalents at 30 June	12	566,925	61,735

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 12 to 41.

Knights Capital Group Limited

Notes to the consolidated financial statements

1. Reporting entity

Knights Capital Group Limited (the “Company” or “KCGL”) is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates. The address of the company’s registered office is 1st Floor, 20 Kings Park Rd, West Perth WA 6005. The Group’s activities during the course of the financial year were its operation of the Albany Gardens Holiday Resort and the development of the Albany Gardens Lifestyle Village; its investments in Arbortech Industries Ltd, Formation Design Systems Pty Ltd and Knights Capital Management Pty Ltd (formerly Meme Capital Management Pty Ltd); and its investment in listed and unlisted securities. (See note 15).

The consolidated financial report was authorised for issue by the directors on 14th October 2010.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs)(including Australian Accounting Interpretations), adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with the IFRS and interpretations adopted by the International Accounting Standards Board. All amounts are presented in Australian dollars unless otherwise noted.

(b) Basis of measurement

The consolidated financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as available-for-sale, and investment property.

(c) Functional and presentation currency

The consolidated financial report is presented in Australian dollars, which is the company’s functional currency and the functional currency of the Group.

(d) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial report are described in the following notes: note 21 – measurement of recoverable amounts of cash-generating units, note 15 and 4(b) – measurement of fair value of unlisted equity securities, note 18 – determination of fair value of investment property and note 19 – utilisation of tax losses.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by Group entities.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company’s financial statements.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Associates (equity accounted investees)

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

In the Company's financial statements, investments in associates are carried at cost.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(b) Property, plant and equipment

(i) Recognition and measurement

Plant & Equipment

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

In the periods when the freehold land and buildings are not subject to an independent valuation, the directors conduct directors' valuations to ensure the land and buildings' carrying amount is not materially different to the fair value.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are charged to the statement of comprehensive income.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis for buildings and a reducing balance basis for plant and equipment over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- buildings 20 years
- plant and equipment 5 - 12 years
- fixtures and fittings 5 - 10 years
- motor vehicle 8 years

Depreciation methods, useful lives and residual values, if not insignificant, are reassessed at the reporting date.

(c) Intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arises on the acquisition of subsidiaries and associates and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the equity accounted investee.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and cash on hand.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses

(ii) Derivative financial instruments

The Group holds derivatives to hedge its interest rate risk exposure. Derivatives are recognised initially at fair value; attributable costs are recognised in profit and loss when incurred. Subsequent to initial recognition the derivatives are measured at fair value and changes therein recognised in profit and loss.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Convertible notes

Convertible notes that can be converted to share capital at the option of the Group and where the conversion price is fixed are treated as equity.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant or equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Work in progress

Work in progress is classified as current (note 15) and consists of costs incurred on homes under construction. The amount is recognised as cost of sales on completion and sale of the homes.

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(h) Impairment (continued)

(i) Financial assets (continued)

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication for impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Sale of homes

Revenue from the sale of homes is recognised when risks and rewards pass to the customers, which occurs when the homes are available for occupation.

(iii) Rental income

Revenue from the rental of park home sites is recognised when receivable from the tenants.

(iv) Other

Interest revenue is recognised when received.

Dividend revenue and trust distributions are recognised when the right to receive the income has been established.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Deferred revenue

Deferred revenue is classified as current (note 22) and consists of customer advances for homes under construction. The amount is recognised as revenue once risks and rewards pass to the customer, which occurs when the home is available for occupation.

(k) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the lease term.

(ii) Net financing costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Dividend income is recognised in the profit or loss on the date the Group's right to receive payments is established which in the case of quoted securities is the ex-dividend date. Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

The Company and its wholly owned Australian resident entity (Knights Parks & Properties Pty Ltd) have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Knights Capital Group Limited. Knights Capital Management Pty Ltd, the only other wholly owned subsidiary, is not part of the tax consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(l) Income tax (continued)

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax consolidated group). Any difference between these amounts is recognised by the company as an equity contribution or distribution. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Employee benefits

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(o) New standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial statement on the basis that they represent a significant change in information from that previously made available.

- Revised AASB 101 Presentation of Financial Statements
AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in the financial statement include:
 - The replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit and loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
 - The adoption of the separate income statement approach to the presentation of the statement of comprehensive income
 - Other financial statements are renamed in accordance with the Standard; and
- Amendments to AASB 7 (AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*) expand the disclosures required in respect of fair value measurements and liquidity risk.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(o) New standards not previously applied (continued)

- AASB 3(2008) Business Combinations has been adopted in the current year. Its adoption affects the accounting for business combinations and additional disclosures requirements. In accordance with the relevant transitional provisions, the changes in accounting for business combinations is only applicable to business combinations for which the acquisition date is on or after 1 July 2009. No such acquisition were undertaken by the Group since 1 July 2009, accordingly the impact of AASB3(2008) is limited to additional disclosure requirements. These disclosure requirements are contained in Note 29.

The following new and revised accounting Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements

- Revised AASB 127 Consolidated and Separate Financial Statements and AASB 128 Investments in Associates changes the accounting for investments in subsidiaries. These revisions principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries. AASB 127(2008) applies prospectively to annual reporting periods on or after 1 July 2009. During the current financial year there has been no change in the Group's interests in its subsidiaries and accordingly the adoption of AASB 127 (2008) has had no impact on these financial statements.
- Revised AASB 123 (2007) Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards – The principal change to AASB 123 was to eliminate the option to expense all borrowings costs when incurred. This change has had no impact on these financial statements.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application.

- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013). AASB 9 Financial instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. It only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Management does not expect this will have a significant impact on the Company's financial statements.
- AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010). AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor using its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Company will apply the interpretation from 1 July 2010. It is not expected to have any impact of the Company's financial statements.
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,107,117,118,136 and 139]*. In May 2009 the AASB issued a number of improvements to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements*, AASB 101 *Statement of Cash Flows*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments, Recognition and Measurement*. The Company will apply the revised Standards from 1 July 2010. The Company does not expect that any adjustments will be necessary as a result of applying the revised rules.

Knights Capital Group Limited

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet adopted (continued)

- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011). In December 2009 the AASB issued a revised AASB 124 related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement of government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Company will apply the amended standard from 1 July 2011. When the amendments are applied, the Company would need to disclose any transactions between its subsidiaries and its associates.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that assets or liabilities.

(a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every twelve months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, however has not taken into account the improvements to the land in its valuation. The improvements are still in progress at 30 June 2010.

(b) Investment in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of the unlisted equity securities investments have been determined with reference to the most recent sale of ordinary shares and/or the net asset backing of the security which is reflective of the fair value at reporting date.

5. Financial risk management

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors oversees how management monitors compliance with the Company's and Group's risk management and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries.

Knights Capital Group Limited

Notes to the consolidated financial statements

5. Financial risk management (continued)

Trade and other receivables

The Company's and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk. However, geographically there is no concentration of credit risk. The Group does not require collateral in respect of trade and other receivables.

Investments

The Group has exposure to credit risk by investing in liquid and illiquid securities.

Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. There are no outstanding guarantees at present.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Obligations with respect to the construction of the park homes is matched to the progress payments received from customers.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and property and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

At the reporting date the Group's financial asset affected by interest rate risks is cash.

At 30 June 2010, the Group's financial liability affected by interest rate risks is the interest-bearing loans and borrowings of which a percentage of the borrowing is on a fixed rate basis. This is achieved by entering into interest rate swaps. The fair value changes of interest rate swaps are recognised in profit or loss. Investments in equity securities and short term receivables and payables are not exposed to interest rate risk.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests.

From time to time the Group purchases its own shares; the timing of these purchases depends on market conditions. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Knights Capital Group Limited

Notes to the consolidated financial statements

6. Revenue

	Note	2010	2009
Rentals		844,385	832,402
Rental income - investment property		142,944	92,202
Sale of park homes		1,911,830	2,452,208
Shop sales		43,190	40,983
Fund Management Fees		417,948	-
Lease of car park		-	2,829
Total revenues		3,360,297	3,420,624

7. Other income

	2010	2009
Net gain on disposal of listed securities	5,852	-
Other	1,050	17,212
	6,902	17,212

8. Other expenses

	2010	2009
Direct operating expenses :		
Depreciation	58,656	52,645
Occupancy expenses	43,126	40,640
Personnel expenses	353,554	285,372
Loss on disposal of listed securities	-	24,975
Direct property expenditure from investment property	65,611	28,451
Other	480,767	338,016
	1,001,714	770,099

9. Personnel expenses

	2010	2009
Director's fees ¹	-	10,000
Wages and salaries	326,687	254,592
Contributions to complying superannuation funds	26,866	20,780
	353,554	285,372

Auditors' remuneration

	2010	2009
Audit services		
Auditors of the Company		
<i>Accru Page Kirk & Jennings:</i>	53,000	40,000
Audit and review of financial reports		
<i>KPMG Australia:</i>		
Audit and review of financial reports	-	49,263
	53,000	89,263

¹ Management fees paid to Bajada & Associates Pty Ltd are reflected in Administration Expenses (see Note 31).

Knights Capital Group Limited

Notes to the consolidated financial statements

10. Net financing costs

	2010	2009
Interest income	6,951	3,064
Trust distribution income	311,080	419,010
Financial income	318,031	422,074
Interest expense	(266,407)	(305,140)
Borrowing expense	(3,695)	(3,695)
Change in fair value of cash flow hedge	88,190	(127,810)
Financial expenses	(181,912)	(436,645)
Impairment of investment property	(1,616,843)	-
Impairment of financial assets ¹	-	(5,109,977)
Net financing income/(costs)	1,480,724	(5,124,548)

11. Income tax expense

Recognised in the income statement

	2010	2009
Current tax expense/(benefit)		
Current year	67,609	-
Deferred tax expense		
Tax losses not recognised	-	-
Total income tax expense/(benefit) in income statement	67,609	-

Deferred tax recognised directly in equity

	2010	2009
Relating to sale of and change in fair value of investments	-	-
Total deferred tax expense in equity	-	-

The balance of franking credits as at 30 June 2010 adjusted for payment of provision for income tax is \$129,495 (2009: \$59,786). The directors recommend the payment of a fully franked dividend of 0.5 cents per share in respect of the financial year ended 30 June 2010. This proposed dividend will reduce the balance of franking credits by \$58,041 to \$71,454.

Numerical reconciliation between tax expense and pre-tax net profit

	2010	2009
Profit/(Loss) before tax	(1,007,554)	(4,733,206)
Income tax using the domestic corporation tax rate of 30% (2009: 30%)	(302,266)	(1,419,961)
Increase/(decrease) in income tax expense/(benefit) due to:		
Equity accounted profit	(4,322)	(31,426)
Franking credits	-	19,286
Non-allowable items	485,083	-
Effect of tax losses not recognised	(115,208)	1,432,101
	67,609	-
Under / (over) provided in prior years	-	-
Income tax expense/(benefit) on pre-tax net profit	67,609	-

¹ Relates to an impairment of listed securities (Note 15), unlisted securities (Note 15) and associates (Note 17).

Knights Capital Group Limited

Notes to the consolidated financial statements

12. Cash and cash equivalents

	2010	2009
Bank balances	566,925	61,735
Cash on hand	-	-
Cash and cash equivalents	566,925	61,735

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 25 for further details.

13. Trade and other receivables

	2010	2009
Current		
Trade receivables	51,136	-
Less Provision for impairment	-	-
Other receivables	156,139	305,805
	207,275	305,805

Credit Risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The main source of credit risk to the Group is considered to relate to the class of assets described as 'trade and other receivables'.

The following table details the Group's trade and other receivables exposed to credit risk. No trade and other receivables are 'past due' or are considered impaired. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within trade terms (as detailed in the table) are considered to be of a high credit quality.

	Gross Amount	Past Due and Impaired	Past Due but not impaired	Within Trade Terms
2010				
Current				
Trade receivables	51,136	-	-	51,136
Other receivables	156,139	-	-	156,139
	207,275	-	-	207,275
2009				
Current				
Trade receivables	-	-	-	-
Other receivables	305,805	-	-	305,805
	305,805	-	-	305,805

Neither the Group nor the parent entity holds any financial assets whose terms have been renegotiated, but which would otherwise be past due or impaired.

Knights Capital Group Limited

Notes to the consolidated financial statements

14. Inventories

	2010	2009
Goods available for sale	19,352	12,971
Work in progress	137,438	37,186
Carrying amount of inventories stated at cost	156,790	50,157

15. Financial Assets

	2010	2009
Non-current investments		
Listed equity securities available for sale	165,559	171,965
Unlisted equity securities available for sale	19,726,513	18,379,830
	19,892,072	18,551,795

Interests in unlisted equity securities

- (a) The Company has a 10% interest in Arbortech Industries Ltd (“Arbortech”), an unlisted public company. Arbortech’s principal activities include the design and manufacture of innovative cutting tools and leisure products such as the Allsaw 170, Woodcarver blades and Airboard, as well as other technologies. The fair value of the investment (being \$4,192,783 or \$3.25 per Arbortech share), was determined with reference to the sale of ordinary shares at \$3.25 concluded by Arbortech in May 2010 as well as interest from willing purchasers in the secondary market. The fair value has not changed from the prior year.
- (b) The Company acquired an 11.66% interest in Knights Coastal Land Fund (previously Mariner Coastal Land Fund) in February 2008 at a cost of \$3,352,250. Based on the Net Assets adjusted for fair value movements, the assessed fair value of the investment has been determined to be \$1,145,129 (\$0.39 per unit) as at 30th June 2010 as compared to \$1,569,086 as at 30 June 2009. The movement for the year ending 30 June 2010 comprised a return of capital of \$87,450 and an impairment loss of \$336,508 recognised in the Consolidated Statement of Comprehensive Income.¹
- (c) The Company acquired a 35.00% interest in Cedar Woods Wellard Ltd in February 2008 at a cost of \$8,694,000. Based on the Net Assets the fair value of the investment has been determined to be \$4,740,719 (\$0.85 per share) as at 30th June 2010 compared to \$2,998,314 as at 30 June 2009. A revaluation gain of \$1,742,405 is recognised in the Consolidated Statement of Comprehensive Income for the year ending 30 June 2010.¹ In prior years this investment has been valued based on the Net Assets per share adjusted for the fair value of the englobo land, given this development has now progressed beyond stage 1 the directors believe it is appropriate to value the investment on an unadjusted net asset position consistent with value reported in the Financial Statements of Cedar Woods Wellard Ltd.
- (d) The Company acquired a 21.30% interest in Mirvac Seascapes in June 2008 at a cost of \$2,950,164 and a further 32,000 shares during financial year ending 30 June 2009 in exchange for shares in KCGL. Based on the Net Assets the fair value of the investment has been determined to be \$4,412,800 (\$1.60 per unit) as at 30th June 2010 compared to \$3,865,341 as at 30 June 2009. Revaluation gain of \$547,459 recognised in the Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2010.¹

¹ The Group does not have significant influence over this investment because there are no substantive kick-out rights, no ability to make key decisions and does not enjoy meaningful benefits. Accordingly the investment has not been equity accounted. The Group has assessed these entities to be special purpose entities over which there is no control and as such are treated as available- for- sale financial instruments. Also see Note 31.

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Notes to the consolidated financial statements

15. Financial Assets (continued)

- (e) The Company acquired a 42.00% interest in Knights Tourist Park Fund (previously Mirvac Tourist Park Fund) in June 2008 at a cost of \$4,894,590. Based on the Net Assets the fair value of the investment has been determined to be \$5,235,083 (\$0.95 per unit) as at 30 June 2010 compared to \$5,754,306 as at 30th June 2009.¹ Impairment loss of \$519,223 recognised in the Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2010.¹

Interests in listed shares

On 3 August 2004, KCGL acquired 600,000 shares in Panorama Synergy Limited (previously St Synergy Limited) at a price of \$0.2667 per share (total consideration \$160,020). The Company subsequently acquired a further 11,800 shares at a cost of \$3,008 in the financial year ending 30 June 2008. During the prior financial year the Company sold 61,800 shares generating gross proceeds of \$9,888. In the current financial year the remaining 550,000 shares were sold generating gross proceeds of \$165,023 (fair value 2009: \$145,750).

The Company's holdings in Argosy Minerals Inc. as at 30 June 2010 totalled 514,637 shares, no shares were acquired or disposed during the financial year. The market value of these shares was \$0.02 per share at 30 June 2010 or \$10,807 (2009: \$21,615).

On 29th March 2010, KCGL acquired 88,889 shares in Dyecol Limited at a cost of 80,440. A further 45,000 shares were acquired in June for a total consideration of \$45,000. The fair value of these shares as at 30 June 2010 was \$139,914 (\$1.045 per share).

The Company also acquired 36,842 shares in Micyln Express Offshore for \$70,000 in March 2010. 29,540 of these shares were subsequently sold recognising a loss of \$11,124. As at 30 June 2010 the Company held 3,286 shares valued at \$1.45 per share (fair value \$10,588).

During the financial year ending 30 June 2009 KCGL acquired 200,000 shares in Vector Resources Ltd for a total consideration of \$18,896. A further 50,000 shares were acquired in April 2010 for \$1,928. The market value of these shares was \$0.017 per share at 30 June 2010 (fair value of \$4,250).

16. Current tax assets and liabilities

Current tax liabilities:
Income Tax

2010	2009
67,609	-

¹ The Group does not have significant influence over this investment because there are no substantive kick-out rights, no ability to make key decisions and does not enjoy meaningful benefits. Accordingly the investment has not been equity accounted. The Group has assessed these entities to be special purpose entities over which there is no control and as such are treated as available- for- sale financial instruments. Also see Note 31.

Knights Capital Group Limited

Notes to the consolidated financial statements

17. Equity accounted investees

Investments in associates

The Group accounts for investments in associates using the equity method.

The Group has the following investment in equity accounted investees:

			30 June Ownership				
Principal activities			Country of incorporation / residence	Reporting Date	2010	2009	
Formation Design Systems Pty Ltd	Supply of sophisticated computer aided design software packages to the marine, ship-building and construction industries		Australia	30 June	45%	45%	
	Revenues (100%)	Profit/(loss) (100%)	Share of associates net profit/(loss) recognised	Total Assets (100%)	Total Liabilities (100%)	Net assets as reported by associates (100%)	Share of associate's net assets equity accounted
2010							
Formation Design Systems Pty Ltd	2,052,354	32,017	14,408	2,039,477	197,660	1,841,817	493,763
Knights Capital Management Pty Ltd (previously Meme)	-	-	-	-	-	-	-
	2,052,354	32,017	14,408	2,039,477	197,660	1,841,817	493,763
2009							
Formation Design Systems Pty Ltd	2,519,097	239,229	107,653	2,043,420	183,620	1,859,800	501,855
Knights Capital Management Pty Ltd (previously Meme)	59,543	(5,799)	(2,899)	-	-	-	-
	2,578,640	233,430	104,754	2,043,420	183,620	1,859,800	501,855

KCGL acquired the remaining 50% interest in Knights Capital Management Pty Ltd (previously Meme Capital Management Pty Ltd) in February 2009. The above share of associate's net profit/loss reflects KCG's 50% share of income for the 8 month period to end of February 2009.

Results of equity accounted investees

	Formation Design Systems Pty Ltd		Knights Capital Management Pty Ltd	
	2010	2009	2010	2009
Share of equity accounted investee's profit before income tax	(24,007)	104,996	-	(2,899)
Share of income tax expense	38,415	2,657	-	-
Share of equity accounted investee's net profit accounted for using the equity method	14,408	107,653	-	(2,899)

Knights Capital Group Limited

Notes to the consolidated financial statements

17. Investments in equity accounted investees (continued)

Movements in carrying amounts of investment

	Formation Design Systems Pty Ltd		Knights Capital Management Pty Ltd	
	2010	2009	2010	2009
Carrying amount of investment in equity accounted investee at the beginning of the year	501,855	484,202	-	65,539
Share of equity accounted investee's net profit	14,408	107,653	-	(2,899)
Dividend received	(22,500)	(90,000)	-	-
Consolidation of Investment on Acquisition of remaining share	-	-	-	(62,640)
Carrying amount of investment in equity accounted investee at the end of the year	493,763	501,855	-	-

18. Investment property

	2010	2009
Balance at 1 July	3,650,494	3,398,885
Improvements	56,349	251,609
Fair value adjustments	(1,616,843)	-
Balance at 30 June	2,090,000	3,650,494
At cost	2,581,218	2,524,869
Fair value adjustments	(491,218)	1,125,625
	2,090,000	3,650,494

Investment property comprises land situated at 40 Wellington Street, Albany, WA. This property is currently being developed for park home accommodation and on completion of the development the land will be leased to each of the park home owners.

The carrying amount of investment property is the fair value of the property as determined by a directors' valuation as at 30 June 2010. This valuation is based on capitalisation of earning at 11%. The valuation follows the methodology applied in an independent valuation undertaken in November 2009 for the combined Investment Property at 40 Wellington Street and land and buildings at 22 Wellington Street.

The improvements relate to the development of the park home accommodation sites which were still ongoing as at 30th June 2010.

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Investment property	-	-	-	-	-	-
Other investments	2,100	-	-	-	2,100	-
Value of loss carry-forwards recognised	-	-	-	-	-	-
Tax (assets) / liabilities	2,100	-	-	-	2,100	-
Net tax (assets) / liabilities	2,100	-	-	-	2,100	-

Knights Capital Group Limited

Notes to the consolidated financial statements

19. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2010	2009
Deductible temporary differences	864,467	423,099
Tax losses	124,805	194,522
Capital Losses	2,626,727	2,628,483
	<u>3,615,999</u>	<u>3,246,134</u>

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits there from.

20. Property, plant and equipment

	Land and buildings	Plant and equipment	Motor Vehicle	Total
Cost				
Balance at 1 July 2008	2,857,551	159,941	95,237	3,112,729
Additions	-	30,775	-	30,775
Balance at 30 June 2009	<u>2,857,551</u>	<u>190,716</u>	<u>95,237</u>	<u>3,143,504</u>
Balance at 1 July 2009	2,857,551	190,716	95,237	3,143,504
Asset revaluation	291,363	-	-	291,363
Disposals	-	(958)	-	(958)
Additions	33,057	53,056	-	86,113
Balance at 30 June 2010	<u>3,181,971</u>	<u>242,814</u>	<u>95,237</u>	<u>3,520,022</u>
	Land and buildings	Plant and equipment	Motor Vehicle	Total
Depreciation and impairment losses				
Balance at 1 July 2008	(62,670)	(48,284)	(3,121)	(114,075)
Depreciation charge for the year	(16,000)	(22,364)	(14,281)	(52,645)
Balance at 30 June 2009	<u>(78,670)</u>	<u>(70,648)</u>	<u>(17,402)</u>	<u>(166,720)</u>
Balance at 1 July 2009	(78,670)	(70,648)	(17,402)	(166,720)
Disposal	-	489	-	489
Depreciation charge for the year	(12,000)	(23,625)	(23,031)	(58,656)
Balance at 30 June 2010	<u>(90,670)</u>	<u>(93,784)</u>	<u>(40,433)</u>	<u>(224,887)</u>
Carrying amounts				
At 1 July 2008	2,794,881	111,657	92,116	2,998,654
At 30 June 2009	2,778,881	120,068	77,835	2,976,783
At 1 July 2009	2,778,881	120,068	77,835	2,976,783
At 30 June 2010	<u>3,091,301</u>	<u>149,030</u>	<u>54,804</u>	<u>3,295,135</u>

Knights Capital Group Limited

Notes to the consolidated financial statements

20. Property, plant and equipment (continued)

The carrying amount of land and buildings is the fair value of the property as determined by a directors' valuation as at 30 June 2010. This valuation is based on capitalisation of earning at 11%. The valuation follows the methodology applied in an independent valuation undertaken in November 2009 for the combined Investment Property at 40 Wellington Street and land and buildings at 22 Wellington Street. The cost of the land and buildings including additions is \$2,890,608.

21. Intangible assets

	Goodwill	Total
Cost		
Balance at 1 July 2008	318,367	318,367
Balance at 30 June 2009	318,367	318,367
Balance at 1 July 2009	318,367	318,367
Balance at 30 June 2010	318,367	318,367
Amortisation and impairment losses		
Balance at 1 July 2008	-	-
Amortisation for the year		
Balance at 30 June 2009	-	-
Balance at 1 July 2009	-	-
Amortisation for the year	-	-
Balance at 30 June 2010	-	-
Carrying amounts		
At 1 July 2008	318,367	318,367
At 30 June 2009	318,367	318,367
At 1 July 2009	318,367	318,367
At 30 June 2010	318,367	318,367

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2010	2009
Albany Gardens Holiday Resort	318,367	318,367

The impairment test for Albany Gardens Holiday Resort is based on market value. To determine market value the projected pre-tax cash flows for the next financial year are normalised, to reflect an owner operator, and capitalised at a rate of 11%.

Knights Capital Group Limited

Notes to the consolidated financial statements

22. Trade and other payables

	2010	2009
Other trade payables and accrued expenses	174,430	145,493
Deferred revenue	197,359	242,293
	371,789	387,786
Financial liabilities at amortised cost classified as trade and other payables		
Total Current	371,789	387,786
Less Deferred Revenue	(197,359)	(242,293)
Financial Liabilities as trade and other payables	174,430	145,493

23. Provisions

	2010	2009
Provision for Annual Leave	24,673	17,742
	24,673	17,742
<i>Movement in Provision for Annual Leave</i>		
Balance as at 1 June	17,742	-
Add: Additional Provisions	25,439	37,897
Less: Amounts used or taken	(18,508)	(20,154)
Balance as at 30 June	24,673	17,742

24. Other financial liabilities

	2010	2009
Interest rate swaps	39,620	127,810
	39,620	127,810

Interest rate swaps are used to hedge interest rate risk associated with the Groups Interest Bearing loans. Gains and losses arising from changes in the fair value of derivatives are recognised directly in the Statement of Comprehensive Income.

25. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

	2010	2009
Current liabilities		
Hire purchase liabilities	63,469	17,025
Secured bank loans	3,000,000	-
	3,063,469	17,025
Non-current liabilities		
Secured bank loans	-	3,000,000
Hire purchase liabilities	-	63,468
	-	3,063,468
Total Liabilities	3,063,469	3,080,493
The carrying amounts of non-current assets pledged as security are:		
Property, Plant & Equipment - Land & Buildings	3,181,971	2,857,551
Investment Property	2,090,000	3,650,494
Floating charge over non-current assets	242,814	190,716
	5,514,785	6,698,761

Knights Capital Group Limited

Notes to the consolidated financial statements

25. Interest-bearing loans and borrowings (continued)

Collateral Provided

Security for the bank loan comprises:

- (i) A First Registered Mortgage by Knights Parks & Properties Pty Ltd over a holiday resort and property situated at 22 and 40 Wellington Street, Albany, WA.
- (ii) A fixed and floating charge by Knights Parks & Properties Pty Ltd over the whole of its assets and undertakings.
- (iii) A commercial guarantee and indemnity from Knights Capital Group Ltd

Covenants imposed by the bank require a minimum Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$512,000 and the Loan to Value to be no more than 60% by 31 January 2011. The minimum EBITDA cover covenant has been met at Balance Date.

See Note 33 – Subsequent Events.

Financial assets that have been pledged as part of the total collateral for the benefit of bank debt are as follows:

	2010	2009
Cash and Cash Equivalents	42,210	54,269
Trade and Other Receivables	7,465	550
Inventories	156,790	50,157
Investment Property	2,090,000	3,650,494
Property, plant and equipment	3,424,785	3,048,267
	<u>5,721,250</u>	<u>6,803,737</u>

Financing facilities

	2010	2009
Secured bank loans	3,000,000	3,000,000
Credit cards	10,000	10,000
Overdrafts	77,500	77,500
	<u>3,087,500</u>	<u>3,087,500</u>

Facilities utilised at reporting date

Secured bank loans	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>

Facilities not utilised at reporting date

Credit cards	10,000	10,000
Overdrafts	77,500	77,500
	<u>87,500</u>	<u>87,500</u>

Financing arrangements

Bank loans – Bankwest \$3,000,000

The Group has entered into a swap arrangement for \$2,000,000 of this loan. The interest rate on this swap is 7.86%. The repayment date for this facility is set at 26 February 2011. See also Note 33 – Subsequent Events.

Mastercard – Bankwest \$10,000

Interest is charged by the financial institution at a variable rate. The rate as at 30 June 2010 was 12.99% (2009: 11.99%).

Overdrafts – Bankwest \$77,500

Interest is charged by the financial institution at a variable rate. The rate as at 30 June 2010 was 10.9% (2009: 9.25%).

Knights Capital Group Limited

Notes to the consolidated financial statements

26. Issued Capital

	Ordinary shares	
	2010	2009
On issue at 1 July	27,086,183	135,283,668
Shares issued	-	147,200
Share consolidation ¹	-	(108,344,685)
On issue at 30 June – fully paid	27,086,183	27,086,183

¹ On the 30th December 2008, shareholders approved the consolidation of the share capital on a 1 for 5 basis.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The value of ordinary issued shares at balance date is \$30,781,928 (2009: \$30,781,928).

Terms and conditions of ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Fair value reserve

The revaluation reserve relates to financial Assets available-for-sale and land and buildings measured at fair value in accordance with applicable Australian Accounting Standards.

Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since prior year. This strategy is to ensure that the Group's gearing ratios remains below 50%. The gearing ratios are as follows:

	2010	2009
Total Borrowings (Note 25)	3,063,469	3,080,493
Less cash and cash equivalents (Note 12)	566,925	61,735
Net Debt	2,496,544	3,018,758
Total Equity	23,515,256	22,865,885
Total Capital	26,011,800	25,884,643
Gearing ratio	10%	12%

Knights Capital Group Limited

Notes to the consolidated financial statements

27. Financial Risk Management

The Group's financial instruments consist mainly of deposit with banks, local money market instruments, equity investments, accounts receivable and payable, loans to and from subsidiaries and derivatives.

The total for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows

	2010	2009
Financial Assets		
Cash and Cash equivalents	566,925	61,735
Receivables	207,275	305,805
Available for sale financial assets	19,892,072	18,551,795
	20,666,272	18,919,335
Financial Liabilities		
Trade and Other Payables	174,430	145,493
Borrowings	3,063,469	3,080,493
Derivatives	39,620	127,810
	3,277,519	3,353,796

Financial Risk Management Policies

The directors' overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board of Directors on a regular basis. These include the credit risk policies and future cash flow requirements

Risk management policies are approved and reviewed by the Board on an annual basis. These include credit risk policies and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for Company operations. Risk management policies are approved and reviewed by the Board on a regular basis. These include credit risk policies and future cash flow requirements.

Specific Financial Risk Exposure and Management

The main risks the Group is exposed is through its financial instruments are market risk relating to interest rate risk and equity price risk, liquidity risk and credit risk.

Market risk - Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of fixed and floating rate debt and the Group has entered into interest rate swaps to convert the majority of debt to fixed rate. At 30 June 2010 approximately 66% of Group debt is fixed rate. It is the policy of the Group to keep between 65% and 80% of debt on fixed interest rates.

Knights Capital Group Limited

Notes to the consolidated financial statements

27. Financial Risk Management (continued)

Interest Rate Swaps

Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The Consolidated Group uses swap contracts to maintain a designated proportion of fixed to floating debt.

The notional principal amounts of the swap contracts approximate two thirds of the Consolidated Group's borrowing facilities. The net interest payment or receipt settlement of the swap contracts occurs at the end of every month and corresponds with interest payment dates on the borrowings. The net settlement amounts are brought to account as an adjustment to borrowing costs.

At balance date, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

Maturity of Notional Amounts	Effective Average Fixed Interest Rate		Notional Principle	
	2010	2009	2010	2009
Less than 1 year	7.86%	-	2,000,000	-
1 to 2 years	-	7.86%	-	2,000,000

The net effective variable interest rate borrowings (i.e. unhedged debt) exposes the Group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities:

Floating Rate Instruments	2010	2009
Bank Overdraft	-	-
Borrowings	1,000,000	1,000,000

Interest rate swaps are measured at fair value with gains and losses taken to the income statement. The gain in the Statement of Comprehensive Income as at 30 June 2010 was \$88,190 (2009 \$127,810 loss).

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

Knights Capital Group Limited

Notes to the consolidated financial statements

27. Financial Risk Management (continued)

Liquidity risk (continued)

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will roll forward.

	Within 1 Year		1 to 5 years		Total	
	2010	2009	2010	2009	2010	2009
Financial liabilities due for payment						
Secured bank loan	3,152,100	235,800	-	3,155,693	3,152,100	3,391,493
Hire purchase liabilities	67,908	23,878	-	67,908	67,908	91,785
Trade and other payables	174,430	145,493	-	-	174,430	145,493
	3,394,438	405,171	-	3,223,601	3,394,438	3,628,771
Financial assets – cash flows realisable						
Cash and cash equivalents	566,925	61,735	-	-	566,925	61,735
Trade and other receivables	207,275	305,805	-	-	207,275	305,805
	774,200	367,540	-	-	774,200	367,540

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. Credit risk is managed on a Group basis and reviewed regularly by the board. Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet.

The Group has no significant concentration of credit risk with any single counterparty or Group of counterparties.

Credit risk related to balances with banks and other financial institutions is managed by the Board in accordance with policy. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's (S&P) rating of at least AA-.

Market risk - Equity price risk

The Company is not exposed to any material commodity price risk. Equity price risk is the risk that fair value of equities decreases as a result of changes in market prices, whether those factors are caused by factors specific to the individual equity or factors affecting all equities in the market. Equity price risk arises from the Company's investment portfolio denoted as 'Financial Assets' in the financial report. Refer to the sensitivity analysis for details of the profit and loss impact of this specific risk.

Knights Capital Group Limited

Notes to the consolidated financial statements

27. Financial Risk Management (continued)

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts which an asset could be exchanged, or a liability, between knowledgeable willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (that is loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

	Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
	2010		2009	
Financial assets				
Cash and Cash equivalents (i)	566,925	566,925	61,735	61,735
Trade and other receivables (i)	207,275	207,275	305,805	305,805
Financial Assets available for sales (iii)	19,892,072	19,892,072	18,551,795	18,551,795
Total Financial Assets	20,666,272	20,666,272	18,919,335	18,919,335
Financial Liabilities				
Trade and other payables (i)	174,430	174,430	145,493	145,493
Hire Purchase Liabilities (ii)	63,469	65,103	80,493	85,018
Derivatives (iv)	39,620	39,620	127,810	127,810
Bank Debt (ii)	3,000,000	2,986,632	3,000,000	3,017,838
Total Financial Liabilities	3,277,519	3,265,785	3,353,796	3,376,159

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short term instruments in nature whose carrying values is equivalent to fair value. Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument
- (ii) Discounted cash flows models are used to determine the fair values of bank debt and hire purchase liabilities. Discount rates used on the calculations are based on interest rate existing at reporting date for similar types of bank debt and hire purchase liabilities. Differences between fair values and carrying values largely represent movements in the effective interest rate determined on initial recognition and current market rates.
- (iii) For listed available for sale financial assets, closing quoted bid prices at reporting date are used. The fair values for unlisted available for sale assets have been based on the net asset position of the respective investments. The net asset position is then adjusted for the most recent valuations of the underlying assets.
- (iv) Derivatives have been valued externally as at 30 June 2010.

Knights Capital Group Limited

Notes to the consolidated financial statements

27. Financial Risk Management (continued)

Sensitivity Analysis

The following table illustrates sensitivities to changes in interest rates and equity prices. The table indicates the impact of how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible

	Profit	Equity
Year ended 30 June 2010		
+/- 2% in interest rates	+/- 20,000	+/- 20,000
+/- 10% in total investments	+/- 1,989,207	+/- 1,989,207
Year ended 30 June 2009		
+/- 2% in interest rates	+/- 20,000	+/- 20,000
+/- 10% in total investments	+/- 1,855,179	+/- 1,855,179

The above sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
Less than one year	44,503	44,530
Between one and five years	2,389	46,892
	46,892	91,422

The Group leases office equipment under an operating lease. The lease will typically run for a period of 3 years, with an option to renew the lease after that date.

The Group also leases business premises under an operating lease. The lease has a two year term with an option to renew the lease for a further two year period.

During the financial year ended 30 June 2010, \$44,602 was recognised as an expense in profit or loss in respect of operating leases (2009: \$41,981).

29. Business Combinations

Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of shares acquired	Consideration Transferred
2010				
There were no subsidiaries acquired in the current financial year				
2009				
Knights Capital Management Pty Ltd (formerly Meme)	Funds Management	Feb 2009	50%	3,750

KCGL acquired the remaining 50% interest in Knights Capital Management Pty Ltd (previously Meme Capital Management Pty Ltd) in February 2009 for a cash payment of \$3,750. Following this acquisition the Group owned 100% of Knights Capital Management Pty Ltd.

Knights Capital Group Limited

Notes to the consolidated financial statements

29. Business Combinations (continued)

The following table shows the assets acquired and liabilities assumed at the date of acquisition of Knights Capital Management Pty Ltd (previously Meme)

	Knights Capital Management Pty Ltd
Current Assets	
Cash and cash equivalents	8,325
Trade and other receivables	1,273
Current Liabilities	
Trade and other payables	(2,455)
	<u>7,143</u>

There was no goodwill arising on the acquisition of the remaining 50% of Knights Capital Management Pty Ltd (previously Meme).

30. Reconciliation of cash flows from operating activities

Cash flows from operating activities	<i>Note</i>	2010	2009
Profit for the period		(1,007,554)	(4,733,206)
<i>Adjustments for:</i>			
Depreciation		58,656	52,645
Impairment of investment property		1,616,843	-
Interest income		(6,951)	(3,064)
Interest expense		-	-
MTM on Derivatives		(88,190)	127,810
Impairment of financial assets		-	5,093,265
Share of profit of equity accounted investees net of dividends received		(325,488)	(523,763)
Loss on sale of property, plant and equipment		333	-
Loss/(Gain) on sale of investments		(5,853)	24,975
Operating profit before changes in working capital and provisions		241,796	38,660
(Increase)/decrease in trade and other receivables		(50,228)	7,562
(Increase)/decrease in inventories		(106,633)	762,353
(Decrease)/increase in Provisions		6,931	17,742
(Decrease)/increase in trade and other payables		(15,996)	(1,024,964)
Net cash from operating activities		<u>75,871</u>	<u>(198,648)</u>

Knights Capital Group Limited

Notes to the consolidated financial statements

31. Related parties

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Movements in shares

Directors' Interest	Balance 30 June 2009	Purchases/ Placements	Share Consolidation	Balance 30 June 2010
Selwyn Bajada	1,023,372	-	-	1,023,372
Basil Conti	5,000	-	-	5,000
	1,028,372	-	-	1,028,372

Related party transactions

Mr S Bajada is a Director of Bajada & Associates Pty Ltd, the Manager of the Company. The Manager is entitled to receive management and performance fees calculated in accordance with the Management Agreement and the Knights Capital Fund Deed. During the financial year Bajada & Associates Pty Ltd became entitled to management fees totalling \$205,182 (2009: \$184,045). In addition to the management fees, the Company provides Bajada & Associates Pty Ltd with a motor vehicle and this entity contributes towards the private use for FBT purposes.

Mr Basil Conti and Mr Ron Peterson are directors of Harden East & Conti Pty Limited. This firm renders accounting advice to the Company and the Manager. All dealings with the firm are in the ordinary course of business and on normal commercial terms and conditions. During the financial year Harden East & Conti Pty Limited were paid \$38,220 (2009: \$18,840) of which \$27,950 was accrued as at June 2009 (comprising \$17,950 fees and \$10,000 directors fees). As at 30 June 2010 no fees were accrued.

Directors' and key management personnel's compensation

A director's fee of nil was paid to Mr Basil Conti during the year (2009: \$10,000).

Non-key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its subsidiaries (see below), associates (see note 16) and with its key management personnel (refer to disclosures for key management personnel above).

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for capital purchases. Loans outstanding between the Company and its controlled entities are repayable on demand, however the Company has to date not imposed a fixed date of repayment and currently these loans are non-interest bearing. During the financial year ended 30 June 2010, such loans to subsidiaries totalled \$2,000,000 (2009: \$2,000,000) have been eliminated on consolidation.

Consolidated entities	Country of Incorporation	Ownership Interest 2010	2009
Parent entity			
Knights Capital Group Limited			
Subsidiaries			
Knights Capital Management Pty Ltd	Australia	100%	100%
Knights Parks & Properties Pty Ltd	Australia	100%	100%

Knights Capital Group Limited

Notes to the consolidated financial statements

32. Parent Entity Disclosures

Financial Position

	2010	2009
Assets		
Current assets	643,650	357,408
Non-current assets	22,293,068	20,975,822
Total assets	22,936,717	21,333,229
Liabilities		
Current Liabilities	112,884	74,320
Non-current liabilities	-	63,468
Total Liabilities	112,884	137,789
Net Assets	22,823,833	21,195,441
Equity		
Issued Capital	30,781,928	30,781,928
Reserves	3,888,838	2,455,167
Retained Earnings	(11,846,432)	(12,041,654)
Total Equity	22,823,834	21,195,441

Financial Performance

	2010	2009
Profit/(Loss) for the year	195,223	(4,870,734)
Other comprehensive income	1,433,171	-
Total comprehensive income	1,628,393	(4,870,734)

33. Subsequent Events

In September 2010, Knights Parks & Properties Pty Ltd accepted a variation to the existing debt facilities with Bankwest Ltd. The principal variation is an extension of the facilities to 31 January 2012.

In respect of the financial year ended 30 June 2010, the directors recommend the payment of a fully franked dividend of 0.5 cents per share. This recommendation is subject to the Company's Constitution being modified at the Company's 2010 Annual General Meeting to reflect the recent changes to the Corporations Act in regards to circumstances in which dividends may be paid. The dividend has not been provided for in the 30 June 2010 Financial Statements.

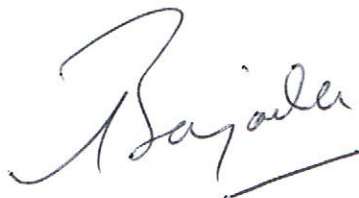
Other than the above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

1. In the opinion of the directors of Knights Capital Group Limited ('the Company'):
 - (a) the financial statements and notes set out on pages 8 to 43, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company's and the Group's financial position as at 30 June 2010 and of their performance for the financial year ended on that date;
 - (ii) complying with the Corporations Regulations 2001 and International Financial Reporting Standards issued by the International Accounting Standards Board;
 - (b) there are reasonable grounds to believe that the Company and the Group Entities identified in Note 31 will be able to pay its debts as and when they become due and payable.

Date: 14th October, 2010

Signed in accordance with a resolution of the directors:



Selwyn John BAJADA
Director

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KNIGHTS CAPITAL GROUP LIMITED**

We have audited the accompanying financial report of Knights Capital Group Limited and Controlled Entities (the consolidated entity) which comprises the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a Summary of Significant Accounting Policies and other explanatory notes, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standard (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material mis-statement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. In note 2(a) the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS

Auditor's Responsibility

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

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KNIGHTS CAPITAL GROUP LIMITED**

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 provided to the directors of Knights Capital Group Limited on 14 October 2010 would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the consolidated financial report of Knights Capital Group Limited is in accordance with the Corporations Act 2001; including
 - (i) giving a true and fair view of the Company and the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and,
 - (ii) complying with Australian Accounting Standard (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Notes 1 to 5.



ACCRU⁺ PAGE KIRK & JENNINGS
Chartered Accountants



GRAEME ROBERT JENNINGS
Partner

Date: 14 October 2010
West Perth, WA