



KNIGHTS CAPITAL GROUP LTD

NOTICE OF ADJOURNED 2012 ANNUAL GENERAL MEETING

1 March 2013 at Level 1, 20 Kings Park Road West Perth at 10.00 am (WST)

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Proxy Form (loose)	

The 2012 Adjourned Annual General Meeting will be held on 1 March 2013 at Level 1, 20 Kings Park Road West Perth at 10.00am (WST).

YOUR VOTE IS IMPORTANT

A proxy form lodged for the 30 November, 2012 meeting remains valid.

However, you are entitled to revoke this proxy and lodge a fresh proxy form if you wish.

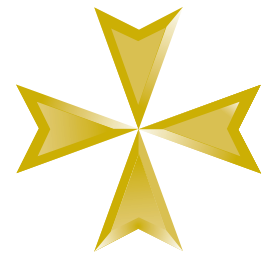
If you previously did not lodge a proxy form and wish to do so for the 2012 Adjourned Annual General Meeting please complete the proxy form enclosed.

Proxy forms must be received by 10:00am (WST) on Wednesday, 27 February 2013.

On how to vote see the Important Notice on How to Vote on Page 4.

KNIGHTS CAPITAL GROUP

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KNIGHTS

7 February 2013

Dear Shareholder,

As you are aware, at the Knights Capital Group Ltd (**KCGL or the Company**) 2012 Annual General Meeting held on the 30 November 2012 (**AGM**), shareholders were being asked to consider resolutions proposed by Australian Executor Trustees Ltd (**AET**) for the removal of the Company's two Non-Executive Directors and for three AET Nominees (**AET Nominees**) to be considered for election (**the AET Resolutions**).

On the 29 November 2012, the Company lodged an application with the Takeovers Panel (**the Panel**) seeking a declaration of unacceptable circumstances against AET. The business of the AGM was adjourned to 17 December 2012 pending the Panel's decision.

On 13 December 2012, the Panel handed down its decision not to conduct proceedings after accepting an undertaking from AET. The AET undertaking to the Panel was to the effect that in its capacities as trustee for the trusts holding KCGL shares, AET would only exercise the voting rights attaching to the KCGL shares it holds in accordance with any directions given to it by the beneficial owners of those KCGL shares (**the AET Undertaking**).

Importantly however, the Panel also referred two issues to the Australian Investments and Securities Commission (**ASIC**) namely whether:

- AET was/is acting in compliance with the bare trustee exemption (section 609(2) of the Corporations Act (**the Act**); or
- AET has breached the 20% threshold test (section 606 of the Act) (collectively "**the Referral Issues**").

Consequently for various reasons, the AGM was further adjourned on 17 December 2012 to 1 March 2013.

Recommendation

The Board continues to have very serious concerns about AET's true intentions and actions and those of the AET Nominees. The Board re-affirms its RECOMMENDATION that it is in your best interests to VOTE AGAINST RESOLUTIONS 2(a) to (e) and to VOTE FOR RESOLUTION 3.

Basis for Recommendation

In formulating the Board's recommendation to shareholders to **VOTE AGAINST** the election of the **AET Nominees**, the following matters are considered important:

- **In the Board's view, AET has not provided adequate evidence to satisfy the AET Undertaking;**
- **The AET Undertaking and the Panel reasons did not address AET's authority to initiate any type of corporate action.** The outcome of the Referral Issues to ASIC are material to the KCGL shareholders in coming to a properly informed decision as to the AET Resolutions, including whether or not shareholders are required to vote on them at all;

- **AET and the AET Nominees have not provided any details of their future strategy for the Board to evaluate and their intentions are unknown;**
- **There is no value adding transaction or proposal by the AET nominees for the Board to consider;** and
- **AET and the AET Nominees are destabilising the Company.** In doing so, they are requiring the Company to expend management time and incur significant unnecessary expenses that are absorbing shareholder funds and which could be better applied elsewhere.

The AET Undertaking

In regards to the AET Undertaking, the Company has again written to AET to provide:

- evidence that the notice AET provided to KCGL to propose the AET Resolutions (**the Notice**) was issued on the specific direction of the underlying beneficial owners of KCGL shares (or on the direction of the underlying beneficial owner's financial planner or adviser who provides AET with the response);
- all directions regarding voting at the AGM which have been given to AET by the underlying beneficial owners of KCGL shares; and
- any communication between AET and the underlying beneficial owners of KCGL shares or their financial planners or advisers concerning the Notice and the AET Resolutions.

Referral to ASIC

As mentioned above, the Panel also referred to ASIC the issues of whether AET is acting in compliance with the bare trustee exemption (section 609(2) of the Act) or has breached the 20% threshold test (section 606 of the Act).

In its Reasons for Decision the Panel stated:

“AET’s role in relation to the Funds, and particularly the Kingston Superannuation Trust, may not meet the requirements of the bare trustee exemption in s609 (2).” (Paragraph 21)

“We note that for example, the product disclosure documents for the Kingston Superannuation Trust provide that AET in its capacity as trustee has full discretion on decisions relating to corporate actions. This implies that AET can vote the Knights shares it holds on behalf of Kingston Superannuation Trust independently of the beneficiaries. This may go beyond the role of a bare trustee...” (Paragraph 24)

“We do not have sufficient information to establish, as AET submitted, whether the risks to Knights shares was imminent or whether AET had time to obtain the instructions of the underlying owners before taking the actions to have the board resolutions put to Knights shareholders. If the risk was not imminent or there was time, the actions of AET would appear to exceed what would be required of a bare trustee...” (Paragraph 26)

“...If AET is not a bare trustee, its acquisition of shares may contravene s 606, which may in turn lead to unacceptable circumstances. We consider that the investigations necessary to determine whether AET is a bare trustee or has contravened s606 are likely to take some time. This may result in further delay to Knights 2012 annual general meeting which has been adjourned to 17 December 2012 which is not desirable. The question also raises broader issues of regulatory policy. For these reasons, we consider ASIC to be best placed to make further enquiries into the role of AET and the bare trustee exemption. We have referred the matter to it. If following such investigation a breach of s606 or other unacceptable circumstances are indicated, ASIC, Knights or any other affected party may then make a fresh application to the Panel.” (Paragraph 27 (a)).

In regards to the referral to ASIC, we have no further information to share with shareholders other than to say that the investigations are ongoing. We will continue to monitor this situation and advise shareholders accordingly.

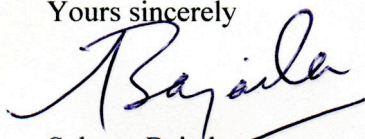
The Board totally rejects AET's assertion that there was or is an imminent risk to KCGL shares. Shareholders are referred to the 2012 Annual Report (including the Executive Chairman's letters and the Managing Director's Review) and the Executive Chairman's Address on 30 November 2012 (available at www.knightsgroup.com.au). These documents clearly demonstrate that the Company is viable and productive led by a capable Board and management. Effective capital management strategies are in place via dividend and share buy-back policies. As a result of these policies the Company has in the last year or so returned in excess of \$2 million to shareholders.

Furthermore, it remains unclear as to what AET and the AET Nominees true intentions are towards the Company. AET has merely advised that *"...if elected, the new board members will undertake a broad-based strategic and operational review of KCG. Beyond this, no final decisions have been made concerning the future of KCG"*. This is obviously inadequate. The Board is of the view that all shareholders need to be properly and adequately informed in order to make decisions on the AET Resolutions which have serious consequences for the Company. It is not unreasonable for the Board to continue to request this information of AET and the AET Nominees.

We will continue to act in the best interest of all shareholders. If you haven't lodged a proxy or wish to lodge a fresh proxy please do so in accordance with the Important Notice on How to Vote overleaf.

Shareholders should visit the Group's web page www.knightsgroup.com.au to be kept informed on the latest developments and activities in the Group.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Selwyn Bajada', with a horizontal line extending from the end of the signature.

Selwyn Bajada
Executive Chairman

IMPORTANT NOTICE ON HOW TO VOTE

Business at Annual General Meeting

The business at the 2012 Adjourned Annual General Meeting asks you to consider resolutions for the removal of two existing Non-Executive Directors - Messrs Conti and Peterson - and three nominations for the position of director (**the Resolutions**). The Resolutions are proposed by Australian Executor Trustees Limited (AET).

Recommendation

The Board continues to have very serious concerns about AET's true intentions and actions and those of the AET Nominees. The Board re-affirms its RECOMMENDATION that it is in your best interests to VOTE AGAINST RESOLUTIONS 2(a) to (e) and to VOTE FOR RESOLUTION 3. See below on how to complete the proxy form.

Basis for Recommendation

In formulating the Board's recommendation to shareholders to **VOTE AGAINST election of the AET Nominees**, the following matters are considered important:

- **In the Board's view, AET has not provided adequate evidence to satisfy the AET Undertaking;**
- **The AET Undertaking and the Panel reasons did not address AET's authority to initiate any type of corporate action.** The outcome of the Referral Issues to ASIC are material to the KCGL shareholders in coming to a properly informed decision as to the AET Resolutions, including whether or not shareholders are required to vote on them at all;
- **AET and the AET Nominees have not provided any details of their future strategy for the Board to evaluate and their intentions are unknown;**
- **There is no value adding transaction or proposal by the AET nominees for the Board to consider;** and
- **AET and the AET Nominees are destabilising the Company.** In doing so, they are requiring the Company to expend management time and incur significant unnecessary expenses that are absorbing shareholder funds and which could be better applied elsewhere.

Business Item	For	Against	Abstain
2(a) Removal of Director – Basil Anthony Conti	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2(b) Removal of Director – Ronald Charles Peterson	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2(c) Appointment of Director – Michael Britton	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2(d) Appointment of Director – Grant Hodgetts	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2(e) Appointment of Director – Greg Paramor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3 Re-Election of Director – Basil Anthony Conti	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

KNIGHTS CAPITAL GROUP LTD

ACN 072 769 174

NOTICE OF ADJOURNED ANNUAL GENERAL MEETING

Knights Capital Group Ltd (**Company**) gives notice that the 2012 Adjourned Annual General Meeting of members (**Meeting**) will be held at Level 1, 20 Kings Park Road on Friday 1 March, 2013 at 10.00 am (WST).

ORDINARY BUSINESS

1. FINANCIAL STATEMENTS AND REPORTS

To receive and consider the financial statements and the report of directors and the auditors for the year ended 30 June 2012.

Note: There is no requirement for shareholders to approve the financial statements and reports.

2. REMOVAL/ELECTION OF DIRECTORS

To consider and, if thought fit, to pass, with or without amendment, the following resolutions as separate **ordinary resolutions**:

- (a) "That Basil Anthony Conti be removed from office as a director of Knights Capital Group Ltd with effect from the end of the Meeting."
- (b) "That Ronald Charles Peterson be removed from office as a director of Knights Capital Group Ltd with effect from the end of the Meeting."
- (c) "That Michael Britton be appointed as a director of Knights Capital Group Ltd with effect from the end of the Meeting."
- (d) "That Grant Hodgetts be appointed as a director of Knights Capital Group Ltd with effect from the end of the Meeting."
- (e) "That Greg Paramor be appointed as a director of Knights Capital Group Ltd with effect from the end of the Meeting."

3. RE-ELECTION OF DIRECTOR

Conditional on resolution 2(a) NOT having been passed, to consider and, if thought fit, pass the following as an **ordinary resolution**:

"That Basil Anthony Conti a Director retiring from office by rotation in accordance with Rule 2.6 of the Constitution of the Company, being eligible, is re-elected a Director of the Company."

By order of the Board



Basil Conti
Company Secretary

7 February 2013

EXPLANATORY NOTES

These Notes form part of the Notice of Adjourned Annual General Meeting.

FINANCIAL STATEMENTS AND REPORTS

The Corporations Act requires Knights Capital Group's financial statements and reports for the last financial year to be laid before the Annual General Meeting. The financial statements and reports are contained in the Company's 2012 Annual Report.

While no resolution is required in relation to this item, shareholders will be given the opportunity to address any questions to the Board.

Resolution 2(a) - REMOVAL OF MR BASIL ANTHONY CONTI AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution to remove Mr Basil Anthony Conti as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors (other than Mr Conti) recommend that you **VOTE AGAINST** this resolution. Mr Conti has abstained from making a recommendation due to his personal interest in the resolution.

Resolution 2(b) - REMOVAL OF MR RONALD CHARLES PETERSON AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution to remove Mr Ronald Charles Peterson as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors (other than Mr Peterson) recommend that you **VOTE AGAINST** this resolution. Mr Peterson has abstained from making a recommendation due to his personal interest in the resolution.

Resolution 2(c) - APPOINTMENT OF MR MICHAEL BRITTON AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution to appoint Mr Michael Britton as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors recommend that you **VOTE AGAINST** this resolution.

Resolution 2(d) - APPOINTMENT OF MR GRANT HODGETTS AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution to appoint Mr Grant Hodgetts as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors recommend that you **VOTE AGAINST** this resolution.

RESOLUTION 2(e) - APPOINTMENT OF MR GREG PARAMOR AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution to appoint Mr Greg Paramor as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors recommend that you **VOTE AGAINST** this resolution.

RESOLUTION 3 - RE-ELECTION OF MR BASIL ANTHONY CONTI AS A DIRECTOR

The Notice of Adjourned Annual General Meeting proposes a resolution (subject to Mr Conti not having been removed from office as a result of resolution 2(a) having been passed) to re-elect Mr Basil Anthony Conti as a Director.

Recommendation: For the reasons set out in the Chairman's Letter the Directors recommend that you **VOTE FOR** this resolution.

Biographies

Michael Britton

Michael Britton has over 35 years of commercial and financial services experience, initially with Boral Limited (ASX code BLD) and culminating in 12 years as General Manager of the Corporate businesses of The Trust Company Limited (ASX code TRU) where he established the Company's reputation as a leader in the delivery of independent Responsible Entity services. He has represented The Trust Company as a Director on the Boards of both domestic and offshore operating subsidiary companies and a large number of special purpose companies delivering the Responsible Entity function in both conventional and stapled, ASX listed and unlisted Managed Investment Schemes. Michael has acted as a Responsible Manager, a member of Committees of inspection in relation to large insolvency administrations and as an independent Compliance Committee Member for substantial Investment Managers with portfolios of Managed Investment Schemes. He is a graduate of the University of New South Wales with degrees in Jurisprudence and Law. Michael is also a Graduate Member of the Australian Institute of Company Directors and a Fellow of the Chartered Institute of Secretaries.

Grant Hodgetts

Grant Hodgetts has been involved in Property and funds management since 1979. He is currently Executive Director of Boyden, Non- Executive Chairman of Folkestone Funds Management, Principal of Hodgetts and Partners and a consultant to the Asian Association of Investors in Non Listed Real Estate (ANREV). Between early 2006 and 2010 he held various positions within the Investment and Funds Management Division of Mirvac Limited including that of CEO —Australia for Mirvac Investment Management. Prior to joining Mirvac, he was Head of Property in the Specialised Capital Group of Westpac Institutional Bank; a Division Director of Property Investment Banking at Macquarie Bank; a Director of Richard Ellis (Vic) Pty Ltd; and an executive of the AMP Society's Property Division. Holding a BA from La Trobe University, an Associate Diploma in Valuations from RMIT and an Advanced Certificate In Business Studies (Real Estate), also from RMIT, he is an Associate of the Australian Property Institute, a licensed real estate agent in Victoria and a member of the Australian Institute of Company Directors. He was a founding Director the Property Industry Foundation in Victoria.

Greg Paramor

Greg was appointed as a Non-Executive Director of Folkestone in May 2010 and became Managing Director on April 2011 following the acquisition of Equity Real Estate Partners (EREP). Greg is a founding partner of EREP. Greg has been involved in the real estate and funds management industry for more than 35 years, and was the cofounder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac Group between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Institute of Company Directors, Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the Chairman of National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans, a Director of Firstfolio Ltd and the Chairman of LJ Hooker Limited.

EFFECT OF REMOVAL OF DIRECTORS

Section 201A(2) of the Corporations Act provides that a public company must have at least three Directors, two of whom must ordinarily reside in Australia. Clause 2.1 of the Company's Constitution also requires the Company to have at least three Directors.

Under Clause 2.3 of the Company's Constitution, the Board has the power to appoint additional persons to be Directors to fill a casual vacancy or as an additional Director.

If the outcome of the resolutions was to place the Company in a position where less than three Directors remained in office, it would be open to the remaining Director(s) to appoint to the Board persons to fill casual vacancies in order to satisfy the minimum director requirements under the Corporations Act and the Company's Constitution.

RESPONSIBILITY STATEMENT

The Company assumes no responsibility for the accuracy or completeness of any information provided in regard to the background and experience of the proposed Director candidates.

Entitlement to vote

Under regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that, for the purposes of voting at the meeting, shareholders are those persons who are the registered holders of Company shares at 10.00 am (WST) on Wednesday 27th February, 2013.

Appointment of proxies

Each member entitled to vote at the general meeting may appoint a proxy to attend and vote at the general meeting. A proxy need not be a member of the Company and can be an individual or a body corporate.

A body corporate appointed as a member's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the general meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

A member entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If a member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of those votes.

Lodgement of proxy documents

For an appointment of a proxy for the meeting to be effective:

- the proxy's appointment; and
- if the appointment is signed by the appointor's attorney – the authority under which the appointment was signed (e.g. a power of attorney) or a certified copy of it,

must be received by the Company at least 48 hours before the meeting (**being 10:00am (WST) on Wednesday 27 February 2013**).

The following addresses are specified for the purposes of receipt of proxies:

By mail:	By fax:
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PO Box 272 Floreat WA 6014

(08)93228788

Bodies corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of a company's members. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

HOW THE CHAIRMAN WILL VOTE UNDIRECTED PROXIES

The Chairman of the Meeting will vote all undirected proxies **AGAINST** resolutions 2(a) – (e) and **FOR** in regards resolution 3.

ADDITIONAL SHAREHOLDER INFORMATION

PRIOR TO THE 30 NOVEMBER 2012 MEETING, THE COMPANY RECEIVED THE FOLLOWING REQUEST FROM A PROXY HOLDER REPRESENTATIVE:

“GIVEN THE RESOLUTIONS PROPOSED AND RELATING TO THE REMOVAL, APPOINTMENT AND RE-ELECTION OF DIRECTORS AND BEFORE THESE RESOLUTIONS ARE PUT BEFORE MEMBERS PRESENT HERE TO-DAY, THOSE DIRECTORS APPOINTED AND REPRESENTING THE COMPANY MAY CARE TO ANSWER VARIOUS PERTINENT QUESTIONS SO THAT ANY DECISIONS TO BE MADE BY MEMBERS ARE BASED ON INFORMATION PRESENTED BEFOREHAND”

THE COMPANY RESPONDED TO THESE QUESTIONS AND NOW PROVIDES THIS INFORMATION TO ALL SHAREHOLDERS.

1. HAVE THE DIRECTORS OF THE COMPANY PREPARED AND ADOPTED A FIVE (5) YEAR + PLAN FOR THE COMPANY AND, IF SO, WHAT ARE THE KEY FACTORS RELATING TO :

- **ITS FUTURE OPERATIONS;**
- **BUSINESS GROWTH PLANS/EXPANSION/ PROFITABILITY; AND**
- **POSSIBLE RESTORATION OF SHAREHOLDER VALUE GIVEN SHAREHOLDER EQUITY HAS FALLEN FROM SOME \$29.88 MILLION TO \$17.69 MILLION (APPROXIMATELY 40% REDUCTION),**

SO THAT SHAREHOLDERS MAY GAIN SOME “INSIGHT” AS TO THE COMPANY’S FUTURE?

COMPANY RESPONSE

- AS STATED IN RECENT MATERIAL SENT TO SHAREHOLDERS AND IN THE AGM ADDRESS ON THE 30 NOVEMBER 2012, THE BOARD PURSUES A PRO-ACTIVE STRATEGY AIMED AT ADDING FURTHER VALUE TO OUR ASSET BASE FOR THE BENEFIT OF ALL SHAREHOLDERS. THE COMPANY’S ASSET MIX ALLOWS FOR A COMBINATION OF STRONG INCOME STREAMS FROM MATURING INVESTMENTS, COUPLED WITH GROWTH OPTIONS FROM UNDEVELOPED ASSETS AND NEW INVESTMENTS.
- THERE ARE HOWEVER SEVERAL FACTORS (INTERNAL AND EXTERNAL) WHICH MAY IMPEDE BUSINESS GROWTH/PROFITABILITY AND RESTORATION OF EQUITY VALUE FOR THE COMPANY AND ITS INTERESTS INTO THE FUTURE. THESE INCLUDE THE STATE OF CAPITAL MARKETS IN AUSTRALIA FOR NEW EQUITY AND DEBT; EXCESS CAPITAL REQUIRED TO MEET ONGOING CAPITAL MANAGEMENT POLICIES E.G. DIVIDENDS, SHARE BUY-BACKS ETC; RELIANCE UPON EXTERNAL MANAGERS/BOARDS; AUSTRALIAN PROPERTY AND FINANCIAL MARKETS; INCREASING REGULATION AND COMPLIANCE; AND GLOBAL STABILITY.
- THE COMPANY’S ASSETS ARE HELD IN VARIOUS WAYS. FOR EXAMPLE, KNIGHTS PARKS & PROPERTIES P/L (**KP&P**) IS A FULLY OWNED SUBSIDIARY AND TRADES AS ALBANY GARDENS HOLIDAY RESORT (**AGHR**) AND ALBANY GARDENS LIFESTYLE VILLAGE (**AGLV**) BOTH ARE MANAGED DIRECTLY WHEREAS INTERESTS SUCH AS MIRVAC SEASCAPES AND CEDAR WOODS WELLARD ARE CONSIDERED PASSIVE INTERESTS. AS SUCH THE BOARD PURSUES SPECIFIC PLANS FOR EACH ASSET BRIEFLY OUTLINED BELOW:

KP&P TRADING AS AGHR AND AGLV

- ACQUIRED IN 2004, AGHR'S TURNOVER WAS CIRCA \$600,000--\$700,000 AND AGLV WAS VACANT LAND.
- AGHR TURNOVER NOW CIRCA \$1M. IMPROVED BRANDING, MARKETING AND CUSTOMER SERVICE.
- AGLV WAS DEVELOPED AS THE FIRST DEDICATED LIFESTYLE VILLAGE IN ALBANY. 45 PARK HOME SITES WITH 44 SITES OCCUPIED WITH THE REMAINING SITE UNDER OPTION.
- BOTH AGHR AND AGLV ARE PROFITABLE AND PROVIDE DIVIDEND INCOME TO THE COMPANY.
- GROWTH PROSPECTS FOR AGHR INCLUDE THE ACQUISITION OF ADDITIONAL CABINS AND BY RE-DEVELOPING THE CAMPING AREA TO ALLOW FOR 16 PARK HOMES. AGLV IS NOW FULLY DEVELOPED BUT HAS BEEN OFFERED ADJOINING VACANT LAND TO DEVELOP THE LIFESTYLE VILLAGE FURTHER.
- AS INVESTMENT YIELDS TIGHTEN, AGHR AND AGLV ARE ATTRACTIVE AND WELL LOCATED ASSETS WHICH COULD BE SOLD TOGETHER OR SEPARATELY.
-

KNIGHTS TOURIST PARK FUND (KTPF)

- KTPF IS AN UNLISTED PROPERTY FUND MANAGED BY KNIGHTS CAPITAL MANAGEMENT P/L. **(KCM)** THE COMPANY IS THE LARGEST UNITHOLDER WITH 42%. THE FUND'S TERM WAS EXTENDED BY UNITHOLDERS IN 2011 TO APRIL 2016.
- KTPF PRESENTLY YIELDS 10.78% THROUGH QUARTERLY DISTRIBUTIONS. PLAN FOR KTPF (ADOPTED BY UNITHOLDERS) IS TO DEVELOP THE DARWIN PROPERTY AND TO DISPOSE OF THE HERVEY BAY PROPERTY.
- ONGOING DISTRIBUTIONS AND CAPITAL RETURNS TO UNITHOLDERS (INCLUDING THE COMPANY). UNLESS DECIDED OTHERWISE, IN 2016 KTPF WILL BE WOUND UP THROUGH THE SALE OF ASSETS AND PROCEEDS DISTRIBUTED.

KNIGHTS COASTAL LAND FUND (KCLF)

- KCLF IS AN UNLISTED PROPERTY FUND MANAGED BY KCM. THE COMPANY IS THE LARGEST UNITHOLDER WITH 12%. THE FUND'S TERM WAS EXTENDED BY UNITHOLDERS IN 2011 TO DECEMBER 2016
- KCLF PRESENTLY YIELDS 7.74% THROUGH QUARTERLY DISTRIBUTIONS. PLAN FOR KCLF (ADOPTED BY UNITHOLDERS) IS TO IMPLEMENT A CAPITAL EXPENDITURE PROGRAM FOR THE BLUE DOLPHIN HOLIDAY RESORT (KCLF HAS 55%) TO RETAIN ITS PREMIER STATUS (LARGELY COMPLETED).
- KCM IS MONITORING THE MARKET FOR COASTAL APPARTMENTS/HOLIDAY ACCOMMODATION TO VALIDATE ANY DECISION TO COMMENCE REDEVELOPMENT OF THE BLUE DOLPHIN (IN WHOLE OR PART) IN ACCORDANCE WITH CONCEPT AND STAGE 1 APPROVALS VALID TO MAY 2014.
- UNLESS DECIDED OTHERWISE, IN 2016 KTPF WILL BE WOUND UP THROUGH THE SALE OF ASSETS AND PROCEEDS DISTRIBUTED.

MIRVAC SEASCAPES FUND (MSF)

- MFS IS AN UNLISTED PROPERTY TRUST MANAGED BY MIRVAC FUNDS MANAGEMENT LTD. THE COMPANY IS THE LARGEST UNITHOLDER WITH 22%. THE PROJECT LIFE HAS BEEN RESET TO MID-2015.
- THE COMPANY HAS EXERTED SOME INFLUENCE ON THE MANAGER TO IMPLEMENT A DISTRIBUTION POLICY WITH DISTRIBUTIONS MADE FOR THE SEPTEMBER AND DECEMBER 2012 QUARTERS..

CEDAR WOODS WELLARD LTD (CWWL)

- THE PROJECT MANAGER - CEDAR WOODS PROPERTIES LTD - IS A RECOGNISED AND WELL REGARDED OPERATOR IN LAND SUBDIVISIONS THROUGHOUT AUSTRALIA, THE PROJECT'S LIFE HAS BEEN EXTENDED TO 2016/17.
- COMPANY HAS BOARD REPRESENTATION ON CWWL. PRE-EMPTIVE SELLING RIGHTS BETWEEN THREE CWWL SHAREHOLDERS. DISADVANTAGEOUS POINT IN THE PROPERTY CYCLE TO EXERCISE WHICH WOULD NOT (IN BOARD'S VIEW) BE IN THE INTERESTS OF ALL COMPANY SHAREHOLDERS.

2. NOTE 16 (b) to (e) TO THE COMPANY'S 2012 ANNUAL REPORT PROVIDES SOME BACKGROUND TO THE REDUCTION IN SHAREHOLDERS NET EQUITY BY REASON OF ACQUIRING INTERESTS IN UNLISTED EQUITY SECURITIES, WHICH HAVE SEEN A MARKED REDUCTION IN VALUE: -

• **KNIGHTS COASTAL LAND FUND – COST \$3.35 MILLION – NOW VALUED \$0.91MILLION;**

• **CEDAR WOODS WELLARD LTD – COST \$8.69MILLION – NOW VALUED AT \$3.50 MILLION; AND**

• **OTHER WRITE-DOWNS.**

IGNORING MARKET FORCES THE ABOVE APPEARS TO ILLUSTRATE THE NEED FOR FURTHER INVESTIGATORY WORK TO BE DONE AND COMPLETED BEFORE ACQUIRING INVESTMENTS OVER WHICH THE COMPANY AND ITS BOARD DOES NOT HAVE OR CANNOT EXERCISE SIGNIFICANT INFLUENCE?

COMPANY RESPONSE

- AS A GENERAL PROPOSITION, THE COMPANY CONCURS WITH THE VIEW THAT THE PREFERRED POSITION IS TO ACQUIRE INVESTMENTS WHERE THE BOARD DOES HAVE OR CAN EXERCISE SIGNIFICANT INFLUENCE.
- HOWEVER, IN REGARDS THE TWO INVESTMENTS CITED NAMELY KNIGHTS COASTAL LAND FUND (**KCLF**) AND CEDAR WOODS WELLARD LTD (**CWWL**) THE FOLLOWING CAN BE STATED:
 - THE KCLF INTEREST WAS INITIALLY ACQUIRED AS A PASSIVE INTERST IN A FUND WHICH HELD TWO ASSETS (AT THAT TIME) WERE COMPATIBLE WITH THE COMPANY'S OTHER ASSETS BEING TOURIST/HOLIDAY PARKS.
 - MANAGEMENT RIGHTS TO THE FUND ACQUIRED IN MID-2009 FOR NO CONSIDERATION IN JULY 2009 WITH KCM APPOINTED FUND MANAGER TO KCLF BY THE REPSONSIBLE ENTITY (RE) OF KCLF - VALUESTREAM INVESTMENT MANAGEMENT LTD.
 - AS FUND MANAGER, KCM MANAGES THE DAY TO DAY BUSINESS AND AFFAIRS OF THE FUND AND IS ACCOUNTABLE TO THE RE AND ULTIMATELY THE UNITHOLDERS FOR SETTING THE FUND STRATEGY.
 - THE CWWL INTEREST WAS ALSO INITIALLY ACQUIRED AS A PASSIVE INTEREST. ITS ACQUISITION WAS SEEN (AT THAT TIME) AS COMPATATIBLE WITH THE ACQUISITION OF THE MSF ACQUISITION.
 - FOLLOWING THE GFC, THE RELEVANT MARKET FOR LAND SUB-DIVISIONS (AND IN PARTICULAR THE CARRYING VALUATIONS FOR

LAND) WAS SERIOUSLY IMPACTED. BANK LENDING AND COVENANTS TIGHTENED. CWWL WAS UNDERCAPITALISED FOR THESE CONDITIONS.

- CEDAR WOODS PROPERTIES LTD (A 32.5% SHAREHOLDER IN CWWL) WAS REQUIRED TO ESTABLISH A MEZZANINE STYLE DEBT FACILITY TO ENABLE THE PROJECT TO PROCEED. ALL CWWL SHAREHOLDERS WERE OFFERED THE OPPORTUNITY TO PARTICIPATE AS LENDERS IN THIS FACILITY WHICH TO THIS DAY REMAINS THE CASE.
- THE COMPANY SOUGHT AND WAS GRANTED A BOARD POSITION AT CWWL. THROUGH THIS POSITION, THE COMPANY HAS BECOME INVOLVED WITH CWWL'S FINANCIAL AFFAIRS AND SIGNIFICANTLY INFLUENCED THE RESTRUCTURING OF THE MEZZANINE FACILITY PARTICULARLY IN REGARDS TO THE INTEREST RATE CHARGED AS THE OVERALL DEBT LEVELS DECREASE.

3. IN RELATION TO THE THREE (3) CURRENTLY APPOINTED DIRECTORS CAN ANY OF THEM BE CLASSIFIED AS BEING "INDEPENDENT" DIRECTORS AND REPRESENTING ALL SHAREHOLDERS?

COMPANY RESPONSE

- **COMPOSITION:** THE CURRENT BOARD IS COMPRISED OF THREE DIRECTORS OF WHICH TWO ARE NON-EXECUTIVE DIRECTORS. THE ONE EXECUTIVE DIRECTOR (SELWYN BAJADA) IS THE EXECUTIVE CHAIRMAN AND MANAGING DIRECTOR, SINCE 1996 BAJADA7 ASSOCIATES HAS ACTED AS MANAGER TO THE COMPANY.THE NON-EXECUTIVE DIRECTORS (BASIL CONTI AND RON PETERSON) CANNOT BE REGARDED AS INDEPENDENT DIRECTORS PURSUANT TO THE ASX CORPORATE GOVERNANCE PRINCIPLES.AS BOTH HAVE BEEN AND CONTINUE TO BE PRINCIPALS OF PROFESSIONAL ADVISERS TO THE COMAPNAY NAMELY FOR ACCOUNTING AND TAX ADVICE. THE BOARD HOLDS THE VIEW THAT EXPANDING THE BOARD TO COMPLY WITH THE ASX PRINCIPLES WOULD NOT NECESSARILY ADD VALUE AND THAT IN THE SHORT TERM THE COSTS WOULD OUTWEIGH THE BENEFITS.THE REASONS FOR THAT INCLUDE THE COMPANY'S STATUS AS AN UNLISTED COMPANY ;THE SIZE OF THE COMPANY ,ITS SPECIALISED NON-COMPLIMENTARY BUSINESSES;ITS GEOPGRAPHIC MARKET PLACES;A DEMAND FOR A SKILLS, KNOWLEDGE AND EXPERIENCE COMBINATION WHICH IS DIFFICULT TO MATCH WITHOUT INCURRING UNREASONABLE COST; AND THE LACK OF POTENTIAL CANDIDATES TO CONSIDER A DIRECTORSHIP OF THIS KIND.
- **REPRESENTATION OF SHAREHOLDERS:** WHILST NOT CLASSIFIED AS "INDEPENDENT" DIRECTORS, ALL DIRECTORS COMPLY WITH THEIR FIDUCIARY AND STATUTORY DUTIES INCLUDING TO EXCERCISE THEIR POWERS AND DISCHARGE THEIR DUTIES IN GOOD FAITH, IN THE BEST INTERESTS OF THE COMPANY AND FOR A PROPER PURPOSE.ON THIS BASIS, ALL THREE DIRECTORS REPRESENT THE INTEREST OF SHAREHOLDERS.

4. BARRING SELWYN BAJADA, THE FEES PAYABLE TO APPOINTED DIRECTORS IN MESSRS CONTI AND PETERSON APPEAR TO BE AT A LOW COMMERCIAL LEVEL AND ONE WOULD SERIOUSLY HAVE TO QUESTION WHY GIVEN MARKET FORCES?

COMPANT RESPONSE

- PRIMA FACIE THE LEVEL OF FEES PAID TO NON-EXECUTIVE DIECTORS HAS BEEN LOWER THAN MARKET. THIS IN PART WAS ATTRIBUTED TO THE FACT THAT THE PROFESSIONAL FIRMS ASSOCIATED WITH THE NON-EXECUTIVE DIRECTORS WERE ALSO CHARGING PROFESSIONAL FEES FOR SERVICES RENDERED.

- AT THE 2008 AGM, APPROVAL WAS OBTAINED IN PRINCIPLE TO INCREASE FEES TO NON-EXECUTIVE DIRECTORS UP TO A MAXIMUM OF \$50,000.
- AS RESULT OF THE INCREASING WORK LOAD PLACED ON THE NON-EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS FEES HAVE INCREASED TO \$10,000 EACH FROM 1 JULY, 2012 SUBJECT TO ONGOING REVIEW.

5. IN RELATION TO THE RESOLUTIONS PROPOSED AND PUT FORWARD BY AUSTRALIAN EXECUTOR AND TRUSTEE LIMITED (“AET”) RELATING TO THE APPOINTMENT OF THREE (3) DIRECTORS DOES RAISE SEVERAL QUESTIONS, WHICH COMMERCIALY AND OTHERWISE DESERVE A FRANK RESPONSE. AET AND/OR ITS REPRESENTATIVE(S), IF PRESENT HERE TO-DAY, MUST ADDRESS/RESPOND TO THE FOLLOWING QUESTIONS: -

- **WHO IS AET REPRESENTING?**
- **WHAT IS THE PURPOSE/REASON OF NOMINATING THREE (3) DIRECTORS?**
- **WILL THE NOMINEES BE “INDEPENDENT” OR WILL THEY BE REPRESENTING AET OR INDEED SOMEONE ELSE?**
- **WHAT PLANS/STRATEGY FOR THE FUTURE DOES AET OR ITS NOMINEES HAVE?**
- **DO TWO (2) OF THE NOMINEES HAVE A POTENTIAL “CONFLICT OF INTEREST” GIVEN THEY ARE APPOINTED OR ASSOCIATED WITH FOLKSTONE LIMITED, A COMPANY ALSO INVOLVED IN THE REAL ESTATE INDUSTRY AND RELATED ACTIVITIES?**
- **WHAT VALUE/BENEFITS CAN THE TWO (2) AET NOMINEES ASSOCIATED WITH FOLKSTONE LIMITED BRING TO KNIGHTS SHOULD THEY BE ELECTED? AND**
- **BY PROVIDING FURTHER BACKGROUND AND PARTICULARS IN RESPECT TO A NOMINEE AND BEING MICHAEL BRITTON AND CLARIFYING WHETHER HE IS REPRESENTING ANOTHER PERSON / COMPANY / SHAREHOLDER?**

COMPANY RESPONSE

- THESE ARE SOME OF THE QUESTIONS WHICH THE BOARD HAS BEEN ENDEAVOURING TO FIND ANSWERS TO FROM AET AND/OR THE AET NOMINEES FOR 8 MONTHS.
- 6. WHAT IS THE UNDERLYING AND TRUE LEGAL AND COMMERCIAL POSITION (BOTTOM LINE IN OTHER WORDS) RELATING TO NOTE 34 TO KNIGHTS 2012 ANNUAL REPORT DEALING WITH A CONTINGENT LIABILITY IN THE AMOUNT OF \$1.836 MILLION: -**
- **HAS THIS AMOUNT BEEN VERIFIED INDEPENDENTLY AND ON A COMMERCIAL “QUANTUM MERIT” BASIS?; AND**
 - **CLEARLY, IF THIS AMOUNT WAS ACTUALLY BROUGHT ON TO THE BALANCE SHEET IT WOULD HAVE A DETRIMENTAL IMPACT ON THE COMPANY’S POSITION BOTH FROM A PROFITABILITY PERSPECTIVE AND FUNDING CRITERIA?**

COMPANY RESPONSE

- NOTE 34 REFLECTS THE PRESENT POSITION AS OF TODAY. THE CIRCUMSTANCES WHICH COULD GIVE RISE TO A DEMAND FROM BAJADA & ASSOCIATES PTY LTD (B & A) HAVE NOT ARISEN. THESE CIRCUMSTANCES MAY CHANGE IN THE FUTURE.

- THE AMOUNT HAS NOT BEEN VERIFIED INDEPENDENTLY AT THIS POINT. IN THE EVENT OF A DEMAND BEING RECEIVED FROM B & A, THE NON-EXECUTIVE DIRECTORS WILL SEPARATELY ADDRESS THE ISSUE AND WILL SEEK INDEPENDENT COUNSEL (LEGAL, ACCOUNTING ETC.) TO ASSIST THEM.
- THE SECOND POINT ABOVE IS NOTED. THE COMPANY REFERS TO NOTE 34 AND THE PARAGRAPH “ESTIMATE OF FINANCIAL EFFECT OF CONTINGENT LIABILITY”

7. WHILST THE SHARE “BUY-BACK” PROVIDES AN AVENUE FOR THOSE SHAREHOLDERS WISHING TO SELL/DISPOSE OF THEIR HOLDINGS, WHEN OFFERED, IS SUCH AN OFFER IN THE GENERAL AND BEST INTERESTS OF THE COMPANY AND SHAREHOLDERS AS A WHOLE?

COMPANY RESPONSE

- SHARE BUY-BACKS ARE JUST ONE MECHANISM VIA WHICH CAPITAL CAN BE RETURNED TO SHAREHOLDERS.
 - THERE IS A PROPORTION (ALBEIT DECREASING) NUMBER OF SHAREHOLDERS ON THE KNIGHTS REGISTER WHO REQUIRE SHARE LIQUIDITY WHICH THE BOARD HAS SOUGHT TO ADDRESS THROUGH SHARE BUY-BACKS.
 - THE BOARD HAS ADOPTED THE EQUAL ACCESS BUY-BACK SCHEME AS THE PREFERRED MECHANISM TO IMPLEMENT ITS BUY-BACK POLICY. IT IS CONSIDERED AN APPROPRIATE AND FAIR MANNER TO DELIVER BENEFITS TO BOTH THE COMPANY AND ITS SHAREHOLDERS –WHETHER THEY CHOOSE TO PARTICIPATE IN THE BUY-BACK OR NOT.
 - IT IS ANTICIPATED THAT CAPITAL RETURNS WILL ALSO BE CONSIDERED IN THE FUTURE WHICH OF COURSE BENEFIT ALL SHAREHOLDERS.
- 8. GIVEN PAST CIRCUMSTANCES WITH INVESTMENT ASSETS ACQUIRED AND SHAREHOLDERS (INVESTORS) INTRODUCED TO KNIGHTS CAPITAL GROUP LTD, WHAT WAS THE THEN COMMERCIAL/BUSINESS RELATIONSHIP(S) BETWEEN KNIGHTS CAPITAL GROUP, THE FORMER MARINER GROUP AND KINGSTON CAPITAL LIMITED?**

COMPANY RESPONSE

- THE COMMERCIAL/BUSINESS RELATIONSHIP WITH KINGSTON CAPITAL LIMITED (AND BEFORE THAT WITH GODFREY PEMBROKE LTD) HAS ALWAYS BEEN AT ARMS LENGTH.
- SINCE 1996, THE COMPANY HAS CONDUCTED ITS AFFAIRS AS AN UNLISTED PUBLIC COMPANY. THE COMPANY IS CONSIDERED A **DISCLOSING ENTITY** FOR THE PURPOSES OF THE CORPORATIONS ACT AND MUST UNDERGO FULL YEAR AUDITS AND HALF-YEAR REVIEWS. ITS SUBSIDIARY ALSO HOLDS AN AFSL.
- KINGSTON CAPITAL LIMITED (AND BEFORE THAT WITH GODFREY PEMBROKE LTD) WERE MAJOR SUBSCRIBERS TO THE PROSPECTUS CAPITAL RAISINGS IN 1996 AND 1997 AND ALSO TO CAPITAL RAISINGS FROM 2000.
- WITH THE NUMBER OF KINGSTON CLIENTS ON THE KNIGHTS REGISTER (REGISTERED AND BENEFICIAL), THE COMMUNICATIONS BETWEEN THE TWO ENTITIES IS ACTIVE AROUND THE TIME OF THE RELEASE OF RESULTS OR SIGNIFICANT EVENTS.

- THE ACQUISITION OF THE INTERESTS IN THE THEN MIRVAC TOURIST PARK FUND ; THE MARINER LAND COASTAL LAND FUND; MIRVAC SEASCAPES FUND; AND CEDAR WOODS WELLARD WERE BOARD INITIATED WITH A VIEW TO BULKING UP THE COMPANY ASSET BASE AND EARNINGS POTENTIAL PRIOR TO CONSIDERING A PUBLIC LISTING. THE GLOBAL FINANCIAL CRISIS PUT PAID TO THIS HAPPENING. THE ACQUISITIONS WERE ALL UNDERTAKEN AT ARM'S LENGTH AND AT CARRYING VALUES FOR EACH ASSET AND UTILISING THE NET ASSET BACKING PER SHARE FOR THE COMPANY AT THAT TIME.
 - THERE HAS NEVER BEEN ANY COMMERCIAL/BUSINESS RELATIONSHIP BETWEEN KNIGHTS AND THE MARINER GROUP. THE INITIAL INTEREST HELD BY KNIGHTS IN MARINER COASTAL LAND FUND WAS PASSIVE AND THEN IN MID-2009 KNIGHTS ACQUIRED FOR NIL CONSIDERATION THE MANAGEMENT RIGHTS TO THE FUND.
 - KNIGHTS WAS NOT PRIVY TO ANY COMMERCIAL/BUSINESS RELATIONSHIP BETWEEN MARINER AND KINGSTON. KNIGHTS WAS AWARE KINGSTON CLIENTS WERE HOLDERS IN THE MARINER GROUP AND SOME OF ITS FUNDS.
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