



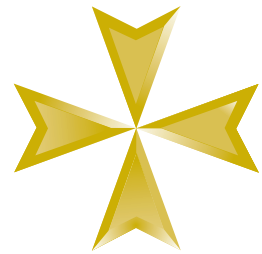
KNIGHTS CAPITAL GROUP LIMITED

2012 ANNUAL REPORT



KNIGHTS CAPITAL GROUP

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KNIGHTS

1 November 2012

Dear Shareholder,

It is with pleasure that I present the 2012 Annual Report.

In last year's report, I commented on the potential impact on world markets of the European sovereign debt and banking crisis. Whilst the market volatility experienced at the outset of the crisis has abated, there still remains in my view sufficient overhang to represent a serious threat to world economic activity. In Australia, we have been somewhat isolated from Europe (and also to some extent from the United States) with our focus on Asia (particularly China). More recently however, we have seen a contraction in the China growth story so it is likely Australia and the developed world will experience a consequential adjustment to activity.

Generally speaking, the easing of monetary policy in Australia throughout 2011/12 has provided some support to the economy. However, with the level of investment into the resource based States of Western Australia and Queensland, we will continue to see significant differences in the economic growth and confidence profiles for these States (and now the Northern Territory) compared to the non- resource based States.

For the Group, the 2011/12 financial year was highlighted by the sale (at a profit) of its investment in Formation Design Systems; the payment of a fully franked 1.0 cent per share Special Dividend and 0.5 cent interim dividend; and the share buy-back of 1.8 million shares concluded in December 2011. The Group recorded a small decrease in **net asset backing per share to \$0.70** (2011:\$0.71) primarily due to value impairments to some of its property investments. The Group's role as fund manager and its investments in the Knights Tourist Park Fund and the Knights Coastal Land Fund were again very successful resulting in stable management fees and distributions providing income yields of **10.78%** and **7.74%** respectively.

On the capital management side, the Board continues to implement its dividend and share buy-back policies with a **partially franked final dividend of 0.5 cents per share (franked to 80%)** declared for the six month period from 1 January 2012 to 30 June 2012 as well as announcing on the 12 October 2012 a **Share Buy-Back Offer of 1,200,000 shares at \$0.50 cents per share**. Shareholders that are registered on the 2 November 2012 and who participate in the share buy-back will still be eligible for the final dividend payable on the 18 December 2012.

Shareholders should 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.

Yours sincerely

Selwyn Bajada
Executive Chairman

Managing Director's Review 2011/2012

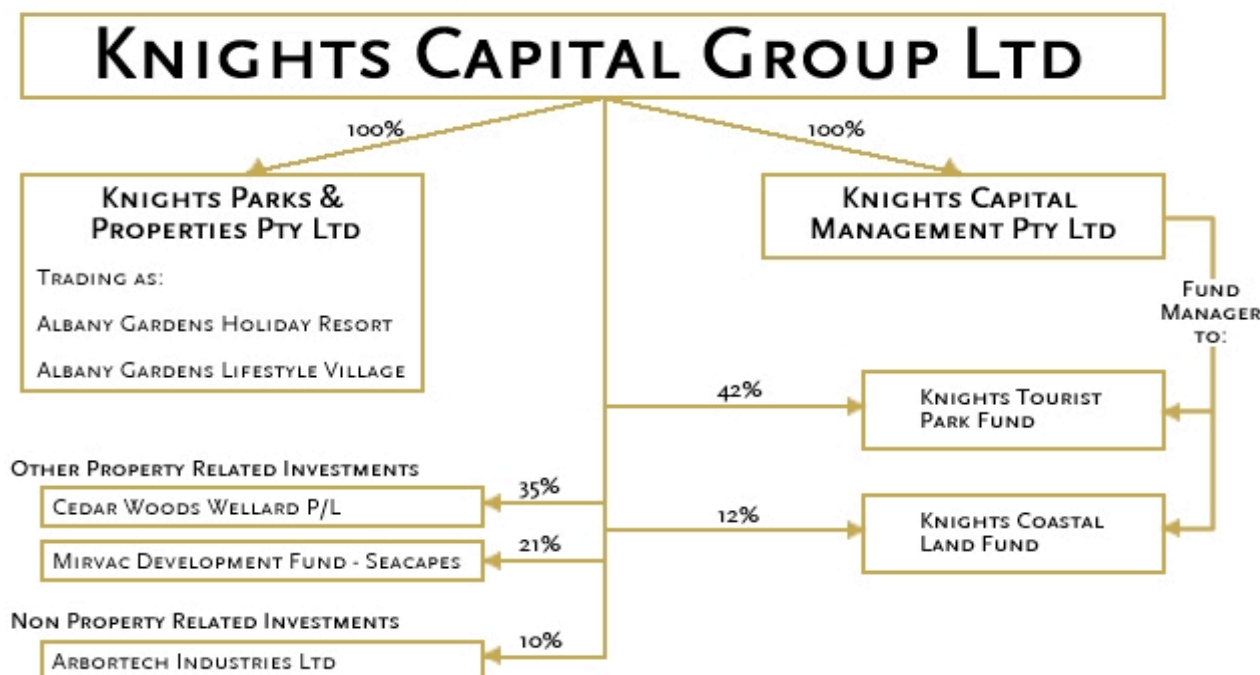
Introduction

The 2011/12 financial year was very productive one for the Group. Our active investments namely, Knights Parks & Properties P/L, Knights Tourist Park Fund, Knights Coastal Land Fund and Knights Capital Management P/L all performed well in challenging economic circumstances. We were successful in concluding the sale of our interest in Formation Design Systems P/L and pleased to see a small increase in the value of our investment in Arbortech Industries Ltd. Other year highlights included total dividends of 2 cents per share providing a gross yield of 3.8% and the share buy-back of 1,800,000 shares at \$0.50 per share completed late last year.

Financial - Key Group Performance Indicators

- Total assets decreased by \$1,792,020 to **\$21,632,669** (2011: \$23,424,689) comprised of a decrease in financial assets to \$14,271,017 (2010: \$15,915,781) principally due to a carrying value impairment to Mirvac Development Fund – Seascapes and Cedar Woods Wellard Ltd and an increase in trade and other receivables to \$398,712 (2011: \$32,852) which includes deferred consideration from the sale of Formation Design Systems
- Net Assets decreased by \$1,579,668 to **\$17,699,423** (2011: \$19,279,091)
- Net Asset Backing per share decreased to **\$0.70** (2011: \$0.71)
- A small increase in Gearing to **14.2%** (2011: 13.2%)
- An increase in cash to **\$471,409** (2011: \$467,996)
- A decrease in Loss after Tax to **\$155,944** (2010: \$500,567)
- Earnings per Share of **(\$0.006)** (2011: (\$0.02))

Knights Group Corporate Structure



Total Shareholder Returns

It was pleasing to see **the Group, Knights Tourist Park Fund and Knights Coastal Land Fund** generate positive Total Shareholder Returns (TSR) compared to the negative results for their peers and major indices as can be seen in the following table:

<u>Total Shareholder Returns</u>	
<u>For year ended 30 June 2012</u>	
Company/Fund/Indices	
Knights Capital Group Ltd	1.2%
Knights Tourist Park Fund	3.9%
Knights Coastal Land Fund	5.3%
Listed Companies	
Abacus Property Group	-4.2%
Aspen Group Ltd	-3.5%
Cedar Woods Properties Ltd	-5.4%
Folkestone Ltd	-17.1%
Mirvac Group	9.4%
Port Bouvard Ltd	-51.8%
Trafalgar Corporate Group Ltd	18.9%
Indices	
S&P ASX 200 A-REIT Index	4.1%
S&P ASX All Ordinaries Index	-7.0%
S&P ASX Small Ordinaries Index	-14.6%
Source: Capital IQ and Knights Capital	

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**”). Both key revenue drivers for AGHR and AGLV remained firm for the year. AGHR’s tourism and rental accommodation increased 5% whilst AGLV’s rental revenue increased 14% to \$229,414 (2011:\$200,672) reflecting additional site leases entered into. As the project approaches full maturity, there was less revenue from the sale of park homes \$589,806 (2011:\$956,378). The total combined revenue decreased to \$1,807,844 (2011:\$ 2,102,990) however, total assets increased 3.7% to \$6,352,436 (2011:\$ 6,126,211) with net assets increasing marginally to \$ 737,212 (2010: \$721,264).

As previously advised, the Bankwest borrowing facilities were successfully extended to February 2014.

At the individual business level, AGHR occupancy levels for the year were again stable. In a very competitive accommodation market, AGHR has maintained its status as one of the “go to” places in Albany with a high degree of brand loyalty. Of the 5000 guests last year, close to 24% were repeat or recommended. The web page www.albanygardens.com.au was recently refreshed and continues to be the primary promotional vehicle as well as for online bookings which increased dramatically during the year to represent 14% of revenue.

AGLV is almost complete as a project with the tenants well settled and enjoying the community facilities. Of the 45 park home sites, 43 sites were occupied via long-term lease agreements (generating a rental of \$121.00 per week per home). Of the remaining two sites, one will be leased in the second financial quarter of this year and the remaining one (under option) will be leased; retained by the optionee via the payment of the weekly rental or allocated to a third party.

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

KCM acts as the fund manager to the Knights Tourist Park Fund and Knights Coastal Land Fund. KCM contributed revenue to the Group (through fund management fees) of \$ 339,410 (2011:\$ 359,048) and a net profit of \$ 96,531 (2011:\$ 109,975). KCM declared dividends of \$90,000 during the year (2011:\$100,000).

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 4.5 star Fraser Lodge Holiday Park in Hervey Bay (QLD).

As at 30th June 2012, the Fund size was \$ 12.06 million with a net tangible asset per unit of \$0.92 (2011:\$0.98). For this interest, the Group reflects a carrying value in the accounts of \$5,064,949 (2011:\$ 5,411,518) and a current year impairment loss of \$346,569 (2011:\$176,436 gain). The Fund made distributions during the financial year totaling 10.0 cents per unit (\$552,000 to the Group) which on the carrying value provides an income yield of 10.9%.

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 2012, the Fund size was \$7.0 million with a net tangible asset per unit of \$0.31 (2011:\$0.29). For this interest, the Group reflects a carrying value in the accounts of \$912,326 (2011:\$ 838,004) and a current year impairment gain of \$74,322 (2010: (\$307,124)). For the financial year, the Group received Fund income distributions totaling \$69,960 (2011:\$ 17,490) which on carrying value provides an income yield of 7.67%.

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

Commentary

Real Estate Outlook - Residential

The Group’s real estate interests are focused on two housing sub-division projects in Mandurah and Wellard in Western Australia. In recent years, this sector’s performance has fluctuated widely from the strong property price highs seen in the Mandurah market; to the stimuli provided to first home buyers; and more recently, to the softening in demand from excess stock and tighter lending conditions.

However, since financial year end, we have seen a small pick-up in housing demand driven by Western Australia’s population growth and dwelling supply easing back as well, as improved housing affordability through stabilised pricing and more moderate lending conditions. So the early indications are for the return of the first home buyers (but at a reduced rate and taking longer to make decisions) yet still the need for stimulatory action via additional interest rate cuts which hopefully will be passed on by the banks.

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 2012, the Fund size was \$19.5million (2011:\$ 21.6m) with a net tangible asset per unit of \$1.53 (2011:\$1.69) a decrease of 9.5% over the year. For this interest, the Group reflects a carrying value in the accounts of \$4,208,069 (2011: \$4,667,484) and a current year impairment loss of \$459,415 (2011:\$ 254,684 gain).

The Seascapes Project is a ten stage programme to sell 553 lots of which 414 lots (or 75%) have been either sold or exchanged. Going forward, the Manager expects sales to improve from a combination of rising incomes, declining residential property prices, falling mortgage rates and a significant change in housing affordability. The Manager forecasts a pre-tax return of \$2.63 per \$1.00 invested.

A fully franked distribution of \$0.12 cents per unit was paid in the first quarter 2011/2012. 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 600 lots. Final lot yield will be dependent upon market demand for various lot sizes. The company is well advanced with the project having just commenced with stage 4. Stages 1-3 totaled 174 lots of which 90% have been sold or subject to settlement.

The investment however, has been affected by the company's undercapitalisation and the need to take on high yielding mezzanine debt which (until repaid) will weigh down heavily on the equity return to shareholders. The Group has board representation.

For this interest, the Group reflects a carrying value in the accounts of \$3,508,609 (2011: \$ 4,331,943) and a current year impairment loss of \$ 823,334 (2011: (\$ 408,776)). As at 30 June 2012, company net assets were \$10m (2011:\$12.4m) with a net tangible asset per share of \$0.63 (2011:\$0.77). 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 unique range of cutting tools and accessories for the Allsaw and Woodcarver technologies. Notwithstanding that Arbortech's main selling markets of Europe and the United States were both depressed, it performed reasonably well with all key financial indicators showing improvement, The Group's carrying value of the investment was adjusted upwards to \$531,219 (2011:\$ 477,332) with an impairment gain of 53,959 \$ (2011:(\$3,715,451)). 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%

As previously noted the Group successfully sold its interest in Formation Design Systems in late 2011 and recorded a gain of \$626,663 for the reporting period. A deferred component of the purchase consideration (namely \$202,500) is recorded as a receivable under Current Assets as at 30 June 2012 and was payable at the end of October 2012.

Corporate

A fully franked special dividend of 1.0 cent per share was paid in November, 2011 followed by a fully franked interim dividend of 0.5 cents per share and a partially franked (franked to 80%) final dividend of 0.5 cents per share declared for the six month period from 1 January 2012 to 30 June 2012. In December 2011, the Company successfully completed a share buy-back of 1,800,000 shares at \$0.50. At financial year end, the Company's ordinary shares on issue totaled 25,286,183.

Selwyn Bajada
Managing Director

Knights Capital Group Limited
ABN 39 072 769 174

Financial Statement
30 June 2012

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Knights Capital Group Limited

Directors' Report

For the year ended 30 June 2012

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 2012 and the auditor's report thereon.

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Knights Capital Group Limited

Directors' Report

For the year ended 30 June 2012

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	55	<ul style="list-style-type: none"> • 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. • He is 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	51	<ul style="list-style-type: none"> • 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	66	<ul style="list-style-type: none"> • Mr Conti is a Partner / Director of Harden East & Conti Pty Limited. • He is the Chairman of MHM Metals 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 BAJADA	9	9
Ron PETERSON	9	9
Basil CONTI	9	9

3. Principal activities

The principal activities of the Group during the course of the financial year was the operation (through its fully owned subsidiary Knights Parks & Properties Pty Ltd ("KP&P")) of the Albany Gardens Holiday Resort and the operation and development of the Albany Gardens Lifestyle Village; its investments in Arbortech Industries Ltd and Knights Capital Management Pty Ltd ("KCM"); 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 is Fund Manager to Knights Tourist Park Fund and Knights Coast Land Fund.

During the period the Company disposed of its investment in Formation Design Systems Pty Ltd, recognising a gain on disposal.

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 2012

4. Review and results of operations

Company Overview

The consolidated income statements show a consolidated loss after tax attributable to members of \$155,944 compared with a loss after tax of \$500,567 in 2011.

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 decreased by \$1,792,020 to \$21,632,669 (2011: \$23,424,689) over the year. The decrease in total assets principally comprised:

- The decrease in financial assets to \$14,271,017 (2011: \$15,915,781) (see Note 16);
- The increase in trade and other receivables to \$398,712 (2011: \$32,852) (see Note 14).

The Consolidated entity's gearing (defined as the ratio of net debt to net debt plus net assets) increased to 14.2% (2011: 13.3%) following the decrease in net assets.

During the period the Company implemented a share buy-back offer for a maximum of 1,800,000 shares at \$0.50 cents per share. The buy-back was fully subscribed and as a result the share capital of the Company was reduced to 25,286,183 from 27,086,183 on the 16th December 2011.

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.

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	2012	227,261	-	33,680	260,941
	2011	231,815	-	22,726	254,541
Non-executive directors					
Mr R Peterson	2012	-	5,000	-	5,000
	2011	-	1,667	-	1,667
Mr B Conti	2012	-	5,000	-	5,000
	2011	-	1,667	-	1,667

Knights Capital Group Limited

Directors' Report (continued)

For the year ended 30 June 2012

6. Dividends

A fully franked special dividend of 1.0 cents per share (\$270,862) was paid on 13 December 2011. A further fully franked interim dividend of 0.5 cents per share (\$126,431) was paid on 2 April 2012. A partially franked dividend of 0.5 cents per share (\$126,431, of which 80% franked) has been declared at 30 June 2012.

7. Events Subsequent to Reporting Date

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 Bajada	1,123,525
Mr R Peterson	-
Mr B 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

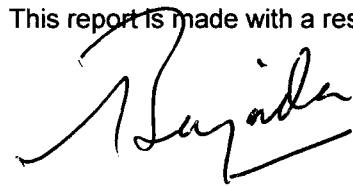
During the financial year the Company paid a premium of \$6,994 in respect of Directors' and Officers' Legal Expenses Insurance

Knights Capital Group Limited
Directors' Report (continued)
For the year ended 30 June 2012

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 2012.

This report is made with a resolution of the directors:



Selwyn John BAJADA
Director

Date: 28th September, 2012

**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 2012 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

Date: 27/9/2012
West Perth, WA

Knights Capital Group Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	2012	2011
Revenue	6	2,147,254	2,462,038
Cost of sales		(469,028)	(793,063)
Gross profit		1,678,226	1,668,975
Other income	7	10,933	6,437
Administrative expenses		(364,422)	(335,320)
Other expenses	8	(1,100,112)	(1,023,878)
Results from operating activities		224,625	316,214
Financial income	11	961,951	30,015
Financial expenses	11	(278,409)	(253,200)
Impairment of investment property	11	-	(445,323)
Impairment of financial assets	11	(1,649,403)	(96,254)
Net financing (costs)		(965,861)	(764,762)
Gain on disposal of equity accounted investees		626,663	-
Share of profit of equity accounted investees	18	-	(4,887)
Profit/(Loss) before income tax		(114,573)	(453,435)
Income tax expense	12	(41,371)	(47,132)
Profit/(Loss) for the year		(155,944)	(500,567)
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/(loss) on revaluation of land and buildings		-	423,601
Net gain/(loss) on revaluation of financial assets		-	(3,888,337)
Total other comprehensive income for the period		-	(3,464,736)
Total comprehensive income for the year		(155,944)	(3,965,303)
Profit/(Loss) attributable to equity holders of the parent		(155,944)	(500,567)
Total comprehensive income attributable to equity holders of the parent		(155,944)	(3,965,303)

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 42.

Knights Capital Group Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2012

	<i>Note</i>	Issued Capital	Fair Value Reserve	Accumulated Profit/(Losses)	Total Equity
Balance as at 1 July 2010		30,781,928	4,179,701	(11,446,373)	23,515,256
Total other comprehensive income for the year		-	(3,464,736)	-	(3,464,736)
Profit/(loss) attributable to equity holders		-	-	(500,567)	(500,567)
Dividends paid or provided for				(270,862)	(270,862)
Balance as at 30 June 2011		30,781,928	714,965	(12,217,802)	19,279,091
Balance as at 1 July 2011		30,781,928	714,965	(12,217,802)	19,279,091
Share buy back		(900,000)	-	0	(900,000)
Total other comprehensive income for the year		-	-	-	-
Profit/(loss) attributable to equity holders		-	-	(155,944)	(155,944)
Dividends paid or provided for		-	-	(523,724)	(523,724)
Balance as at 30 June 2012	27	29,881,928	714,965	(12,897,470)	17,699,423

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 42.

Knights Capital Group Limited
Consolidated Statement of Financial Position
As at 30 June 2012

	<i>Note</i>	2012	2011
Assets			
Current assets			
Cash and cash equivalents	13	471,409	467,996
Trade and other receivables	14	398,712	32,852
Inventories	15	226,766	236,117
Other		52,844	60,098
Total current assets		1,149,731	797,063
Non-current assets			
Financial assets	16	14,271,017	15,915,781
Investments in equity accounted Investees	18	-	488,876
Investment property	19	2,050,096	2,040,000
Deferred tax assets	20	3,630	3,600
Property, plant and equipment	21	3,839,828	3,861,002
Intangible assets	22	318,367	318,367
Total non-current assets		20,482,938	22,627,626
Total assets		21,632,669	23,424,689
Liabilities			
Current liabilities			
Loans and borrowings	26	15,955	14,613
Trade and other payables	23	377,026	520,971
Provisions	24	10,816	16,871
Provision for dividends	28	126,431	135,431
Current tax liability	17	(12,971)	48,632
Other financial liabilities	25	29,900	7,036
Total current liabilities		547,157	743,554
Non-current liabilities			
Loans and borrowings	26	3,386,089	3,402,044
Total non-current liabilities		3,386,089	3,402,044
Total liabilities		3,933,246	4,145,598
Net assets		17,699,423	19,279,091
Equity			
Issued capital	27	29,881,928	30,781,928
Reserves		714,965	714,965
Accumulated losses		(12,897,470)	(12,217,802)
Total equity attributable to the equity holders of the company		17,699,423	19,279,091

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 42.

Knights Capital Group Limited
Consolidated Statement of Cash Flows
For the year ended June 30 2012

	Note	2012	2011
Cash flows from operating activities			
Cash receipts from customers		2,147,862	2,483,188
Cash paid to suppliers and employees		(2,004,166)	(2,030,024)
Cash generated from operations		143,696	453,164
Interest paid		(251,919)	(281,963)
Income taxes paid		(103,004)	(69,709)
Net cash from operating activities	31	(211,227)	101,492
Cash flows from investing activities			
Proceeds from sale of investments		923,103	12,572
Interest received	11	8,831	12,270
Dividends received		-	255
Distributions received		797,580	173,030
Acquisition of/improvements to investment property	19	(10,096)	(395,323)
Return of capital from other investments		-	-
Proceeds from sale of property, plant and equipment		-	50,000
Acquisition of property, plant and equipment	21	(45,244)	(248,808)
Acquisition of other investments		(12,197)	(22,174)
Net cash from investing activities		1,661,977	(418,178)
Cash flows from financing activities			
Dividends paid		(532,724)	(135,431)
Proceeds from borrowings		-	418,971
Share capital buy back		(900,000)	-
Repayment of borrowings		(14,613)	(65,782)
Net cash from financing activities		(1,447,337)	217,758
Net increase/(decrease) in cash and cash equivalents		3,413	(98,929)
Cash and cash equivalents at 1 July		467,996	566,925
Cash and cash equivalents at 30 June	13	471,409	467,996

The Statements of Cash Flows are to be read in conjunction with the notes to the financial statements set out on pages 12 to 42.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

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 2012 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 the operation of the Albany Gardens Holiday Resort and the operation and development of the Albany Gardens Lifestyle Village; its investments in Arbortech Industries Ltd and Knights Capital Management Pty Ltd (formerly Meme Capital Management Pty Ltd); and its investment in listed and unlisted securities (see Note 16).

The consolidated financial report was authorised for issue by the directors on 28th September 2012.

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 22 – measurement of recoverable amounts of cash-generating units, Note 16 and 4(b) – measurement of fair value of unlisted equity securities, Note 19 – determination of fair value of investment property and Note 20 – 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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

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.

(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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

3. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(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 statement of comprehensive income as incurred.

(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 the statement of comprehensive income.

(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 the statement of comprehensive income, 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 the statement of comprehensive income.

Knights Capital Group Limited
Notes to the Consolidated Financial Statements
For the year ended June 30 2012

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

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.

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 the statement of comprehensive income when incurred. Subsequent to initial recognition the derivatives are measured at fair value and changes therein recognised in the statement of comprehensive income.

(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 the statement of comprehensive income.

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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

3. Significant accounting policies (continued)

(h) Impairment (continued)

(i) Financial assets (continued)

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.

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

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 the statement of comprehensive income. 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 the statement of comprehensive income.

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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

3. Significant accounting policies (continued)

(i) Revenue (continued)

(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.

(j) Deferred revenue

Deferred revenue is classified as current (Note 23) 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 the statement of comprehensive income 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 the statement of comprehensive income, using the effective interest method.

Dividend income is recognised in the statement of comprehensive income 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 the statement of comprehensive income using the effective interest method.

(l) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

3. Significant accounting policies (continued)

(l) Income tax (continued)

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.

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 net 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.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

3. Significant accounting policies (continued)

(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 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 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. 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 adoption of this amendment has not resulted in any changes to the Group's accounting policies and has no impact on the amounts reported for the current or prior periods.
- AASB 2010-5 *Amendments to Australian Accounting Standards* (effective from 1 January 2011). This standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The adoption of this amendment has not resulted in any changes to the Group's accounting policies and has no impact on the amounts reported for the current or prior periods.
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective from 1 July 2011). This amendment introduces additional disclosures designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. . The adoption of this amendment has not resulted in any changes to the Group's accounting policies and has no impact on the amounts reported for the current or prior periods.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been published but are not mandatory for the reporting period ending 30 June 2012. The Director's assessment of the impact of these new standards and interpretations is set out below.

- 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. The Director's do not expect this will have a significant impact on the Group's financial statements.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

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 three years. 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 2012.

(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.

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, other than that disclosed in Note 26 Interest bearing loans and borrowings.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

5. Financial risk management (continued)

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 2012, 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 the consolidated statement of comprehensive income. 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
For the year ended June 30 2012

6. Revenue

Note

	2012	2011
Rentals	952,527	906,932
Rental income - investment property	229,414	200,672
Sale of park homes	589,806	956,378
Shop sales	36,097	39,009
Fund management fees	339,410	359,047
Total revenues	<u>2,147,254</u>	<u>2,462,038</u>

7. Other income

	2012	2011
Net gain/(loss) on disposal of listed securities	2,505	(1,302)
Other	8,428	7,739
	<u>10,933</u>	<u>6,437</u>

8. Other expenses

	2012	2011
Direct operating expenses :		
Depreciation	61,423	52,554
Occupancy expenses	40,830	32,610
Personnel expenses	357,144	417,732
Loss on disposal of listed securities	-	-
Direct property expenditure from investment property	-	-
Other	640,715	520,982
	<u>1,100,112</u>	<u>1,023,878</u>

9. Personnel expenses

	2012	2011
Director's fees ¹	10,000	3,334
Wages and salaries	319,952	382,254
Contributions to complying superannuation funds	27,192	32,144
	<u>357,144</u>	<u>417,732</u>

10. Auditors' remuneration

	2012	2011
Audit services		
Auditors of the Company		
<i>Accru Page Kirk & Jennings:</i>	51,900	41,200
Audit and review of financial reports		
	<u>51,900</u>	<u>41,200</u>

¹ Management fees paid to Bajada & Associates Pty Ltd are reflected in Administration Expenses (see Note 32).

Knights Capital Group Limited
Notes to the Consolidated Financial Statements
For the year ended June 30 2012

11. Net financing costs

	2012	2011
Interest income	8,831	12,270
Dividend income	-	255
Trust distribution income	953,120	17,490
Financial income	961,951	30,015
Interest expense	(251,919)	(281,963)
Borrowing expense	(3,625)	(3,820)
Change in fair value of cash flow hedge	22,865	32,583
Financial expenses	(278,409)	(253,200)
Impairment of investment property	-	(445,323)
Impairment of financial assets ¹	(1,649,403)	(96,254)
Net financing income/(costs)	(965,861)	(764,762)

12. Income tax expense

Recognised in the consolidated statement of comprehensive income

	2012	2011
Current tax expense/(benefit)		
Current year	41,371	47,132
Deferred tax expense		
Tax losses not recognised	-	-
Total income tax expense/(benefit)	41,371	47,132

Deferred tax recognised directly in equity

	2012	2011
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 2012 adjusted for payment of provision for income tax is \$44,639 (2011: \$62,043).

Numerical reconciliation between tax expense and pre-tax net profit

	2012	2011
(Loss)/profit before tax	(114,573)	(453,435)
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	(34,372)	(136,030)
Increase/(decrease) in income tax expense/(benefit) due to:		
Equity accounted profit	-	(1,466)
Franking credits	(171,232)	-
Non-allowable items	249,975	162,473
Effect of tax losses not recognised	-	22,155
	41,371	47,132
Under/(over) provided in prior years	-	-
Income tax expense/(benefit) on pre-tax net profit	41,371	47,132

¹ Relates to an impairment of listed securities (Note 16), unlisted securities (Note 16) and associates (Note 18).

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13. Cash and cash equivalents

	2012	2011
Bank balances	471,409	467,996
Cash on hand	-	-
Cash and cash equivalents	<u>471,409</u>	<u>467,966</u>

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 26 for further details.

14. Trade and other receivables

	2012	2011
Current		
Trade receivables	40,672	32,852
Less provision for impairment	-	-
Other receivables	<u>358,040</u>	<u>-</u>
	<u>398,712</u>	<u>32,852</u>

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
2012				
Current				
Trade receivables	40,672	-	-	40,672
Other receivables	<u>358,040</u>	<u>-</u>	<u>-</u>	<u>358,040</u>
	<u>398,712</u>	<u>-</u>	<u>-</u>	<u>398,712</u>
2011				
Current				
Trade receivables	32,852	-	-	32,852
Other receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>32,852</u>	<u>-</u>	<u>-</u>	<u>32,852</u>

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.

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15. Inventories

Current	2012	2011
Goods available for sale	11,541	12,433
Work in progress	215,225	223,684
Carrying amount of inventories stated at cost	226,766	236,117

16. Financial assets

Non-current investments	2012	2011
Listed equity securities available for sale	45,773	189,500
Unlisted equity securities available for sale	14,225,244	15,726,281
	14,271,017	15,915,781

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 \$531,291 or \$0.41 per Arbortech share), was determined with reference to the net assets of the company as at 30 June 2012 (2011: \$0.37 per share). An impairment gain of \$53,959 was recognised in the consolidated statement of comprehensive income during the period.
- (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 the assessed fair value of the investment has been determined to be \$912,326 (\$0.31 per unit) as at 30th June 2012 as compared to \$838,004 as at 30 June 2011. An impairment gain of \$74,322 was 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 \$3,508,609 (\$0.63 per share) as at 30th June 2012 compared to \$4,331,943 as at 30 June 2011. An impairment loss of \$823,334 was recognised in the consolidated statement of comprehensive income for the year ending 30 June 2012.¹
- (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 \$4,208,069 (\$1.53 per unit) as at 30th June 2012 compared to \$4,667,484 as at 30 June 2011. An impairment loss of \$459,415 was recognised in the consolidated statement of comprehensive income for the financial year ended 30 June 2012.¹
- (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 \$5,064,949 (\$0.92 per unit) as at 30 June 2012 compared to \$5,411,518 as at 30th June 2011. An impairment loss of \$346,569 was recognised in the consolidated statement of comprehensive income for the financial year ended 30 June 2012.¹

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 32.

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16. Financial assets (continued)

Interests in listed shares

- (a) The Company's holdings in Argosy Minerals Inc. as at 30 June 2012 totalled 614,637 shares; of which 50,000 shares were acquired during the financial year at a cost of \$12,196 and 185,363 shares were sold realising a profit of \$2,527. The market value of these shares was \$0.046 per share at 30 June 2012 (2011: \$0.15 per share).
- (b) The Company's holdings in Dyecol Limited at a 30 June 2012 totalled 150,000 shares. The fair value of these shares as at 30 June 2012 was \$16,500 (\$0.11 per share) (2011: \$0.48 per share)
- (c) The Company's holdings in Vector Resources Ltd as at 30 June 2012 totalled 250,000 options. The market value of these options was \$0.004 per option as at 30 June 2012 or \$1,000 (2011: \$0.02 per option or \$5,000).

17. Current tax assets and liabilities

	2012	2011
Current tax liabilities:		
Income tax	(12,971)	48,632
	<u>(12,971)</u>	<u>48,632</u>

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18. Equity accounted investees

Investments in associates

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

During the period the Company sold its 45% interest in Formation Designs Systems Pty Ltd recognising a gain on disposal of \$626,663. Proceeds of \$913,039 were received on the sale and an additional \$202,500 deferred sales proceeds is due in October 2012. The deferred proceeds of \$202,500 has been recognised as a receivable in the accounts of the Company.

The Group has the following investment in equity accounted investees:

				30 June Ownership			
	Principal activities	Country of incorporation / residence	Reporting Date	2012	2011		
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%		
	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
2012							
Formation Design Systems Pty Ltd	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
2011							
Formation Design Systems Pty Ltd	2,049,459	(10,859)	(4,887)	2,071,688	240,730	1,830,958	488,876
	2,049,459	(10,859)	(4,887)	2,071,688	240,730	1,830,958	488,876

Results of equity accounted investees

	Formation Design Systems Pty Ltd	
	2012	2011
Share of equity accounted investee's profit before income tax	-	(44,528)
Share of income tax expense	-	39,641
Share of equity accounted investee's net profit accounted for using the equity method	-	(4,887)

Movements in carrying amounts of investment

	Formation Design Systems Pty Ltd	
	2012	2011
Carrying amount of investment in equity accounted investee at the beginning of the year	488,876	493,763
Share of equity accounted investee's net profit	-	(4,887)
Sale of equity accounted investment	(488,876)	-
Carrying amount of investment in equity accounted investee at the end of the year	-	488,876

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19. Investment property

	2012	2011
Balance at 1 July	2,040,000	2,090,000
Improvements	10,096	395,323
Fair value adjustments	-	(445,323)
Balance at 30 June	2,050,096	2,040,000
At cost	2,986,637	2,976,541
Fair value adjustments	(936,541)	(936,541)
	2,050,096	2,040,000

Investment property comprises land situated at 40 Wellington Street, Albany, WA. This property has been developed for park home accommodation and is being 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 2012. 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 2012.

20. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Investment property	-	-	-	-	-	-
Other	3,630	3,600	-	-	3,630	3,600
Value of loss carry-forwards recognised	-	-	-	-	-	-
Tax (assets)/liabilities	3,630	3,600	-	-	3,630	3,600
Net tax (assets)/liabilities	3,630	3,600	-	-	3,630	3,600

Unrecognised deferred tax assets and liabilities

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

	2012	2011
Deductible temporary differences	1,522,461	1,014,377
Tax losses	65,359	159,401
Capital losses	2,437,586	2,626,336
	4,025,406	3,800,114

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.

Knights Capital Group Limited
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21. Property, plant and equipment

	Land and buildings	Plant and equipment	Motor vehicle	Total
Cost				
Balance at 1 July 2010	3,181,971	242,814	95,237	3,520,022
Asset revaluation	423,602	-	-	423,602
Disposals/Written off	-	(29,048)	(95,237)	(124,285)
Additions	49,649	48,235	150,924	248,808
Balance at 30 June 2011	<u>3,655,222</u>	<u>262,001</u>	<u>150,924</u>	<u>4,068,147</u>
Balance at 1 July 2011	3,655,222	262,001	150,924	4,068,147
Asset revaluation	-	-	-	-
Disposals/Written off	-	(13,169)	-	(13,169)
Additions	12,004	33,240	-	45,244
Balance at 30 June 2012	<u>3,667,226</u>	<u>282,072</u>	<u>150,924</u>	<u>4,100,222</u>
Depreciation and impairment losses				
Balance at 1 July 2010	(90,670)	(93,784)	(40,433)	(224,887)
Disposals	-	19,588	50,708	70,296
Depreciation charge for the year	(16,000)	(24,035)	(12,519)	(52,554)
Balance at 30 June 2011	<u>(106,670)</u>	<u>(98,231)</u>	<u>(2,244)</u>	<u>(207,145)</u>
Balance at 1 July 2011	(106,670)	(98,231)	(2,244)	(207,145)
Disposal/Written off	-	8,175	-	8,175
Depreciation charge for the year	(16,000)	(31,058)	(14,366)	(61,424)
Balance at 30 June 2012	<u>(122,670)</u>	<u>(121,114)</u>	<u>(16,610)</u>	<u>(260,394)</u>
Carrying amounts				
At 1 July 2010	3,091,301	149,030	54,804	3,295,135
At 30 June 2011	<u>3,548,552</u>	<u>163,770</u>	<u>148,680</u>	<u>3,861,002</u>
At 1 July 2011	3,548,552	163,770	148,680	3,861,002
At 30 June 2012	<u>3,544,556</u>	<u>160,958</u>	<u>134,314</u>	<u>3,839,828</u>

The carrying amount of land and buildings is the fair value of the property as determined by a directors' valuation as at 30 June 2012. 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 \$2,952,261.

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22. Intangible assets

	Goodwill	Total
Cost		
Balance at 1 July 2010	318,367	318,367
Balance at 30 June 2011	318,367	318,367
Balance at 1 July 2011	318,367	318,367
Balance at 30 June 2012	318,367	318,367
Amortisation and impairment losses		
Balance at 1 July 2010	-	-
Amortisation for the year	-	-
Balance at 30 June 2011	-	-
Balance at 1 July 2011	-	-
Amortisation for the year	-	-
Balance at 30 June 2012	-	-
Carrying amounts		
At 1 July 2010	318,367	318,367
At 30 June 2011	318,367	318,367
At 1 July 2011	318,367	318,367
At 30 June 2012	318,367	318,367

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2012	2011
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%.

23. Trade and other payables

Current	2012	2011
Other trade payables and accrued expenses	191,729	181,060
Deferred revenue	185,297	339,911
	377,026	520,971
Financial liabilities at amortised cost classified as trade and other payables		
Total current	377,026	520,971
Less: Deferred revenue	(185,297)	(339,911)
Financial liabilities as trade and other payables	191,729	181,060

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24. Provisions

	2012	2011
Provision for annual leave	10,816	16,871
	<u>10,816</u>	<u>16,871</u>
<i>Movement in provision for annual leave</i>		
Balance as at 1 June	16,871	24,673
Add: Additional provisions	23,785	26,205
Less: Amounts used or taken	(29,840)	(34,007)
Balance as at 30 June	<u>10,816</u>	<u>16,871</u>

25. Other financial liabilities

	2012	2011
Interest rate swaps	29,900	7,036
	<u>29,900</u>	<u>7,036</u>

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.

26. Interest-bearing loans and borrowings

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

Current liabilities	2012	2011
Hire purchase liabilities	15,955	14,613
	<u>15,955</u>	<u>14,613</u>
Non-current liabilities		
Secured bank loans	3,262,822	3,262,822
Hire purchase liabilities	123,267	139,222
	<u>3,386,089</u>	<u>3,402,044</u>
Total liabilities	<u>3,402,044</u>	<u>3,416,657</u>

The carrying amounts of non-current assets pledged as security are:

Property, plant & equipment - Land & buildings	3,544,556	3,655,222
Investment property	2,050,096	2,040,000
Floating charge over non-current assets	160,092	281,589
	<u>5,754,744</u>	<u>5,976,811</u>

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

26. Interest-bearing loans and borrowing (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

Covenant imposed by the bank requires a minimum Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$512,000. This covenant was met at Balance Date.

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

	2012	2011
Cash and cash equivalents	261,591	179,429
Trade and other receivables	-	-
Inventories	226,766	236,117
Investment property	2,050,096	2,040,000
Property, plant and equipment	3,704,648	3,711,059
	<u>6,243,101</u>	<u>6,166,605</u>

Financing facilities

	2012	2011
Secured bank loans	3,262,822	3,262,822
Credit cards	10,000	10,000
Overdrafts	77,500	77,500
	<u>3,350,322</u>	<u>3,350,322</u>

Facilities utilised at reporting date

Secured bank loans	3,262,822	3,262,822
	<u>3,262,822</u>	<u>3,262,822</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 \$3,262,822

The Group has entered into a swap arrangement for \$2,000,000 of this loan. The interest rate on this swap is 5.64%. The repayment date for this loan facility is set at 28 February 2014.

Mastercard – Bankwest \$10,000

Interest is charged by the financial institution at a variable rate. The rate as at 30 June 2012 was 17.99% (2011: 17.99%).

Overdrafts – Bankwest \$77,500

Interest is charged by the financial institution at a variable rate. The rate as at 30 June 2012 was 10.70% (2011: 11.45%).

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27. Issued capital

	Ordinary shares	
	2012	2011
On issue at 1 July	27,086,183	27,086,183
Shares redeemed	(1,800,000)	-
On issue at 30 June – fully paid	<u>25,286,183</u>	<u>27,086,183</u>

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.

During the period the Company implemented a share buy-back offer for a maximum of 1,800,000 shares at \$0.50 cents per share. The buy-back was fully subscribed and as a result the share capital of the Company was reduced to 25,286,183 from 27,086,183 on the 16th December 2011.

The value of ordinary issued shares at balance date is \$29,881,928 (2011: \$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:

	Note	2012	2011
Total borrowings	26	3,402,044	3,416,657
Less cash and cash equivalents	13	<u>(471,409)</u>	<u>(467,996)</u>
Net debt		2,930,635	2,948,661
Total equity		<u>17,699,423</u>	<u>19,279,091</u>
Total capital		<u>20,630,058</u>	<u>22,227,752</u>
Gearing ratio		14%	13%

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28. Dividends

		2012	2011
Fully paid ordinary shares			
Special dividend – paid 13 th December 2011	cents per share	1.0	-
	\$	270,862	
Interim dividend – paid 2 nd April 2012:	cents per share	0.5	0.5
	\$	126,431	135,431
Final dividend – declared 30 th June	cents per share	0.5	0.5
	\$	126,431	135,431

A partially franked dividend of 0.5cents was declared as at 30 June 2012.

29. 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:

	2012	2011
Financial assets		
Cash and cash equivalents	471,409	467,996
Receivables	398,712	32,852
Available for sale financial assets	14,271,017	15,915,781
	<u>15,141,138</u>	<u>16,416,629</u>
Financial liabilities		
Trade and other payables	191,729	181,060
Borrowings	3,402,044	3,416,617
Derivatives	29,900	7,036
	<u>3,623,673</u>	<u>3,604,713</u>

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 2012 approximately 63% 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.

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29. 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.

	Effective Average Fixed Interest Rate		Notional Principle	
	2012	2011	2012	2011
Maturity of Notional Amounts				
Less than 1 year	4.09%	5.64%	2,000,000	2,000,000
1 to 3 years	-	-	-	-

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:

	2012	2011
Floating rate instruments:		
Bank overdraft	-	-
Borrowings	1,262,822	1,262,822

Interest rate swaps are measured at fair value with gains and losses taken to the statement of comprehensive income. The loss in the statement of comprehensive income as at 30 June 2012 was \$22,865 (2011 \$32,584 gain).

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

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.

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29. Financial risk management (continued)

	Within 1 Year		1 to 5 years		Total	
Financial liabilities due for payment	2012	2011	2012	2011	2012	2011
Secured bank loan	-	-	3,262,822	3,262,822	3,262,822	3,262,822
Hire purchase liabilities	15,955	14,613	123,267	139,222	139,222	153,835
Trade and other payables	191,729	181,060	-	-	191,729	181,060
	<u>207,684</u>	<u>195,673</u>	<u>3,386,089</u>	<u>3,402,044</u>	<u>3,593,773</u>	<u>3,597,717</u>
Financial assets – cash flows realisable						
Cash and cash equivalents	471,409	467,996	-	-	471,409	467,996
Trade and other receivables	398,712	32,852	-	-	398,712	32,852
	<u>870,121</u>	<u>500,848</u>	<u>-</u>	<u>-</u>	<u>870,121</u>	<u>500,848</u>

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

For the year ended June 30 2012

29. 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 fair values (continued)

	2012		2011	
	Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
Financial assets				
Cash and cash equivalents (i)	471,409	471,409	467,996	467,996
Trade and other receivables (i)	398,712	398,712	32,852	32,852
Financial assets available for sales (iii)	14,271,017	14,271,017	15,915,781	15,915,781
Total financial assets	15,141,138	15,141,138	16,416,629	16,416,629
Financial liabilities				
Trade and other payables (i)	191,729	191,729	181,060	181,060
Hire purchase liabilities (ii)	139,222	141,031	153,835	156,122
Derivatives (iv)	29,900	29,900	7,036	7,036
Bank debt (ii)	3,262,822	3,266,050	3,262,822	3,271,862
Total financial liabilities	3,623,673	3,628,710	3,604,753	3,616,080

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

- 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
- 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.
- 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.
- Derivatives have been valued externally as at 30 June 2012

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

29. 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 2012		
+/- 2% in interest rates	+/- 20,000	+/- 20,000
+/- 10% in total investments	+/- 1,427,102	+/- 1,427,102
Year ended 30 June 2011		
+/- 2% in interest rates	+/- 20,000	+/- 20,000
+/- 10% in total investments	+/- 1,591,578	+/- 1,591,578

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

30. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	43,244	48,454
Between one and five years	44,230	97,732
	<u>87,474</u>	<u>146,186</u>

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 three year term with an option to renew the lease for a further one year period.

During the financial year ended 30 June 2012, \$43,905 was recognised as an expense in profit or loss in respect of operating leases (2011: \$34,781).

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

31. Reconciliation of cash flows from operating activities

Cash flows from operating activities	2012	2011
Profit for the period	(155,944)	(500,566)
<i>Adjustments for:</i>		
Depreciation	61,423	52,554
Impairment of investment property	-	445,323
Interest income	(8,831)	(12,270)
Property, plant and equipment written off	4,995	9,462
MTM on derivatives		
Impairment of financial assets	1,649,403	96,254
Distributions received	(953,120)	
Share of profit of equity accounted investees net of dividends received	-	(12,859)
Loss on sale of property, plant and equipment	-	(5,472)
(Gain)/loss on sale of investments	(629,169)	1,302
Operating profit before changes in working capital and provisions	(31,243)	73,728
(Increase)/decrease in trade and other receivables	(567)	20,873
(Increase)/decrease in inventories	9,351	(79,328)
(Increase)/decrease in deferred tax assets	(30)	(1,500)
(Decrease)/increase in current tax liability	(61,603)	(21,077)
(Decrease)/increase in other financial liabilities	22,865	(32,584)
(Decrease)/increase in Provisions	(6,055)	(7,802)
(Decrease)/increase in trade and other payables	(143,945)	149,182
Net cash from operating activities	(211,227)	101,492

32. 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 2011	Purchases / Placements	Share Consolidation	Balance 30 June 2012
Selwyn Bajada	1,053,572	69,953	-	1,123,525
Basil Conti	5,000	-	-	5,000
	<u>1,058,372</u>	<u>69,953</u>	<u>-</u>	<u>1,128,525</u>

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. During the financial year Bajada & Associates Pty Ltd became entitled to management fees totalling \$227,261 (2011: \$231,815). 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 \$13,485 (2011: \$7,634) of which nil was accrued as at June 2011 (comprising \$3,485 fees and \$10,000 directors fees). As at 30 June 2012 no fees were accrued.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

32. Related parties (continued)

Directors' and key management personnel's compensation

A director's fee of \$5,000 was paid each to Mr Basil Conti and Mr Ron Peterson during the year (2011: \$1,667).

Non-key management personnel disclosures

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).

Identity of related parties

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 2012, such loans to subsidiaries totalled \$2,000,689 (2011: \$2,000,689) have been eliminated on consolidation.

Consolidated entities	Country of Incorporation	Ownership Interest	
		2012	2011
Parent entity			
Knights Capital Group Limited			
Subsidiaries			
Knights Capital Management Pty Ltd	Australia	100%	100%
Knights Parks & Properties Pty Ltd	Australia	100%	100%
Knights Investments (Aust) Pty Ltd	Australia	100%	100%

33. Parent entity disclosures

Financial position

	2012	2011
Assets		
Current assets	806,941	264,207
Non-current assets	16,578,136	18,412,603
Total assets	17,385,077	18,676,810
Liabilities		
Current liabilities	182,718	170,284
Non-current liabilities	123,267	139,222
Total liabilities	305,985	309,506
Net assets	17,079,092	18,367,304
Equity		
Issued capital	29,881,928	30,781,928
Retained earnings	(12,802,836)	(12,414,624)
Total equity	17,079,092	18,367,304

Financial performance

	2012	2012
Profit/(Loss) for the year	135,512	(297,330)
Other comprehensive income	-	(3,888,338)
Total comprehensive income	135,512	(4,185,668)

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

34. Contingent Liability

Factual background

Selwyn Bajada is the Managing Director of Bajada & Associates Pty Ltd which acts as manager of the Company pursuant to a Management Agreement between Bajada & Associates and the Company dated 4 April 1996 (**Agreement**).

The Agreement provides, amongst other things, that:

1. the Company agrees for Mr Bajada to be appointed as the Managing Director of the Company for the duration of the appointment (**Appointment Provision**); and
2. Bajada & Associates is entitled to receive management and performance fees calculated in accordance with the Agreement.

In July 2003, due to ongoing liquidity pressures in the Company at that time, the Company and Bajada & Associates agreed that:

1. the obligations under the Agreement would continue;
2. Bajada & Associates could demand and the Company would pay, such part of the obligations under the Agreement as had accrued at any time, the balance of obligations being payable on further demand(s); and
3. the Agreement was not otherwise varied.

In May/June 2012, the Company received oral and written notices from a shareholder which purported to remove Mr Bajada from the position of Managing Director of the Company. The Non-Executive Directors believed that these notices, if effective, would appear to put the Company in breach of the Agreement (in particular the Appointment Provision) and also leave the Company vulnerable to potential legal action by Bajada & Associates.

On the 25 June 2012 the Company received written notification from Bajada & Associates of its intention to re-instate full application of its entitlement to management and performance fees under the Agreement effective from 1 July 2012. In addition, for the benefit of the Company, Bajada & Associates was prepared to provide a unilateral forbearance from enforcing the outstanding remuneration due under the Agreement (i.e. for the period from July 2003 to 30 June 2012) and advised by Bajada & Associates to be in the order of \$1.836 million. Bajada & Associates further advised that such unilateral forbearance would be terminable in the following circumstances:

1. should the Agreement be terminated by the Company;
2. should Bajada & Associates be unable to perform its duties, or any part of its duties (whether temporarily or permanently) under the Agreement such as Mr Bajada ceasing to be Managing Director of the Company ; and
3. on the happening of some event likely to cause a change of control in the Company or any of its subsidiaries.

Knights Capital Group Limited

Notes to the Consolidated Financial Statements

For the year ended June 30 2012

34. Contingent Liability (continued)

Accordingly, the unilateral forbearance will end if Bajada & Associates is prevented from performing its management obligations under the Agreement. On 3 July 2012 the Non-Executive Directors, acting in the best interests of the Company and all shareholders, resolved to continue to recognise the appointment of Mr Bajada as the Managing Director of the Company. As at the date of signing of the Directors' Report there has been no material change to the above facts and circumstances

Potential contingent liability

In light of the circumstances discussed above, the Company perceives that there may be a contingent liability in regard to a potential breach of the Agreement with Bajada & Associates, and/or enforcement of the unilateral forbearance by Bajada & Associates.

Without limitation, the contingent liability may be in the form of:

1. a claim for damages against the Company by Bajada & Associates;
2. a liquidated claim for management and performance fees due to Bajada & Associates; and/or
3. a claim for outstanding remuneration due to Bajada & Associates.

Estimate of financial effect of contingent liability

The Company cannot presently estimate the total financial effect of the contingent liability on a whole of claims basis. However, Bajada & Associates have advised the Company that for the period from July 2003 to June 2012 a liquidated claim for management and performance fees alone would be in the order of \$1.836m.

Uncertainties relating to the amount or timing of disbursement

At present there is a high degree of uncertainty relating to the amount or timing of any disbursement. As future events may affect the amount required to settle the contingent liability or timing of disbursement, there is at the date of the Directors' Report a lack of sufficient objective evidence that such future events will occur.

Possibility of reimbursement

Given the high degree of uncertainty relating to the contingent liability, the Company believes it is not practicable to consider the possibility of reimbursement for this reporting period.

35. Subsequent events

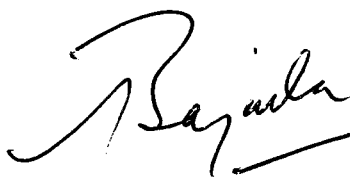
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, 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 42, 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 2012 and of their performance for the financial year ended on that date;
 - (ii) complying with Accounting Standards, which as stated in accounting policy Note 2(a) to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards;
 - (b) there are reasonable grounds to believe that the Company and the Group Entities identified in Note 32 will be able to pay its debts as and when they become due and payable.

Date: *28th September, 2012*

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
ABN: 39 072 769 174
AND CONTROLLED ENTITIES**

Report on the Financial Report

We have audited the accompanying financial report of Knights Capital Group Limited and its controlled entities (the consolidated entity), which comprises the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the company and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material mis-statement, whether due to fraud or error. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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
ABN: 39 072 769 174
AND CONTROLLED ENTITIES**

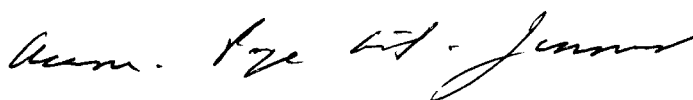
Independence

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, which has been given to the directors of Knights Capital Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Knights Capital Group Limited and its controlled entities is in accordance with the Corporations Act 2001, including:
 - [i] giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and,
 - [ii] complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).



ACCRU⁺ PAGE KIRK & JENNINGS
Chartered Accountants



G R JENNINGS
Partner

Date: 28/9/2012