

**KNIGHTS CAPITAL GROUP LIMITED
AND CONTROLLED ENTITIES
A.C.N. 072 769 174**

**CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2011**

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

Directors' report

The directors present their report together with the consolidated interim financial statement for the half year ended 31 December 2011 and the review report thereon.

Directors

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

Name	Period of directorship
Non-executive	
Mr Basil Conti	Director since 1996
Mr Ronald Peterson	Director since 2008
Executive	
Mr Selwyn Bajada	Director since 1996 – Managing Director

Review of operations

The principal activities of the consolidated entity during the course of the half-year to 31 December 2011, were its operation (through its fully owned subsidiary Knights Parks & Properties Pty Ltd ('KP&P')) of the Albany Gardens Holiday Resort and the development of Albany Gardens Lifestyle Village; its investment in Arbortech Industries Ltd, Formation Design Systems Pty Ltd and investment in listed and unlisted securities (See Note 5). 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 Coastal 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 consolidated entity during the period.

Company Overview

The Consolidated Statement of Comprehensive Income for the six months ended 31 December 2011 shows a consolidated net profit attributable to members of \$501,600 compared with a loss of \$146,071 for the same period in 2010.

The Consolidated Interim Balance Sheet shows net assets decreased by 4% to \$18,474,328 from \$19,279,091 as at 30 June 2011.

The Consolidated Entity's total assets decreased by \$1,183,583 to \$22,241,106 (30 June 2011: \$23,424,689) over the half -year.

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.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

Directors' report (Continued)

Dividends

A fully franked dividend of 0.5 cents per share, being the final dividend for the financial year ending 30 June 2011 was paid on the 26th October and a further fully franked special dividend of 1.0 cent per share was paid on 13th December 2011 (31 Dec 2010: 0.5 cents per share). Provision for a fully franked dividend of 0.5 cents per share has been made at 31 December 2011.

Events subsequent to balance date

There has not arisen in the interval between 31 December 2011 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.

Likely developments

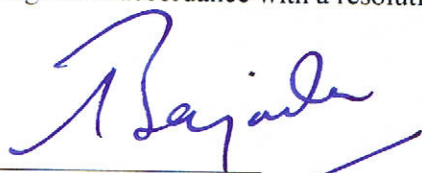
The Company will continue to pursue its policy of maintaining and seeking direct equity investments in emerging companies; the development of its fully owned subsidiary Knights Parks & Properties Pty Ltd and Knights Capital Management Pty Ltd; and its investments in listed securities.

Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

The auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2011.

Dated at Perth this 13th day of March 2012

Signed in accordance with a resolution of the directors:



Selwyn John Bajada
Director

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

To the directors of Knights Capital Group Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2011 there have been:

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



ACCURU⁺ PAGE KIRK & JENNINGS
Chartered Accountants



GRAEME ROBERT JENNINGS
Auditor

Dated: 13th March, 2012
West Perth, WA

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	Note	31 December 2011 \$	31 December 2010 \$
Revenue		1,127,446	1,297,212
Cost of sales		(293,098)	(507,276)
Gross profit		834,348	789,937
Other income		8,250	1,079
Administrative expenses		(179,722)	(153,874)
Other expenses		(571,108)	(501,442)
Results from operating activities		91,768	135,700
Financial income		647,738	24,243
Financial expenses		(129,697)	(117,603)
Impairment of investment properties	6	-	(84,951)
Impairment of financial assets	5	(716,096)	(38,054)
Net financing costs		(198,055)	(216,365)
Gain on disposal of equity accounted investees		626,663	-
Share of profit of equity accounted investees		-	(40,097)
Profit / (Loss) before income tax		520,376	(120,762)
Income tax benefit/(expense)	8	(18,776)	(25,309)
Profit/ (Loss) for the period		501,600	(146,071)
Attributable to equity holders of the parent		501,600	(146,071)

This statement is to be read in conjunction with the notes to the consolidated interim financial statement on pages 10-14.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	31 December 2011 \$	31 December 2010 \$
Profit/(Loss) for the period	501,600	(146,071)
Other comprehensive income for the period net of tax:		
Net loss on revaluation of financial assets	-	(3,888,337)
Total comprehensive income for the period	501,600	(4,034,408)
Total comprehensive income attributable to equity holders of the parent	501,600	(4,034,408)

This statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statement on pages 10-14.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital	Fair value Reserve	Accumulated Losses	Total Equity
Balance at 1 July 2010	30,781,928	4,179,701	(11,446,374)	23,515,255
Total other comprehensive income for the period	-	(3,888,337)	-	(3,888,337)
Profit/(loss) for the period	-	-	(146,071)	(146,071)
Payment of dividends	-	-	(135,431)	(135,431)
Balance at 31 December 2010	30,781,928	291,364	(11,727,876)	19,345,417
Balance at 1 July 2011	30,781,928	714,965	(12,217,802)	19,279,091
Total other comprehensive income for the period	-	-	-	-
Share buy back	(900,000)	-	-	(900,000)
Profit/(loss) for the period	-	-	501,600	501,600
Payment of dividends	-	-	(406,363)	(406,363)
Balance at 31 December 2011	29,881,928	714,965	(12,122,565)	18,474,328

This statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statement on pages 10-14.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	31 December 2011 \$	30 June 2011 \$
Assets			
Current assets			
Cash and cash equivalents		211,073	467,996
Trade and other receivables		398,975	32,852
Inventories		132,324	236,117
Other		61,452	60,098
Total current assets		<u>803,824</u>	<u>797,063</u>
Non-current assets			
Financial Assets	5	15,211,881	15,915,781
Investments in equity accounted investees	5	-	488,876
Investment property	6	2,048,803	2,040,000
Deferred tax assets		900	3,600
Property, plant and equipment	7	3,857,331	3,861,002
Intangible assets		318,367	318,367
Total non-current assets		<u>21,437,282</u>	<u>22,627,626</u>
Total assets		<u>22,241,106</u>	<u>23,424,689</u>
Liabilities			
Current liabilities			
Loans and borrowings		15,269	14,613
Trade and other payables		167,783	520,971
Provisions		16,871	16,871
Provisions for dividends		135,431	135,431
Current Tax Liability		34,084	48,632
Other financial liabilities		3,098	7,036
Total current liabilities		<u>372,536</u>	<u>743,554</u>
Non-current liabilities			
Loans and borrowings		3,394,242	3,402,044
Total non-current liabilities		<u>3,394,242</u>	<u>3,402,044</u>
Total liabilities		<u>3,766,778</u>	<u>4,145,598</u>
Net assets		<u>18,474,328</u>	<u>19,279,091</u>
Equity			
Issued capital		29,881,928	30,781,928
Reserves		714,965	714,965
Accumulated losses		(12,122,565)	(12,217,802)
Total equity		<u>18,474,328</u>	<u>19,279,091</u>

The statement is to be read in conjunction with the notes to the consolidated interim financial statement on pages 10-14.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	Note	31 December 2011 \$	31 December 2010 \$
Cash flows from operating activities			
Cash receipts from customers		1,122,831	1,306,383
Cash paid to suppliers and employees		(1,256,098)	(1,080,752)
Cash generated from operations		(133,267)	225,631
Interest paid		(132,729)	(145,727)
Income taxes paid		(30,624)	-
Net cash (used) / provided by operating activities		(296,620)	79,904
Cash flows from investing activities			
Interest received		5,698	6,753
Distributions received		486,500	155,540
Acquisition of/improvements to investment property	6	(8,803)	(304,951)
Acquisition of investments		(12,196)	(7,558)
Proceeds from sale of investments		913,040	-
Acquisition of property, plant & equipment	7	(31,035)	(36,608)
Net cash provided / (used) by investing activities		1,353,205	(186,823)
Cash flows from financing activities			
Repayment of borrowings		(7,146)	(9,130)
Proceeds from borrowings		-	254,688
Share capital buy back		(900,000)	-
Dividends paid		(406,363)	(135,431)
Net cash (used) / provided by financing activities		(1,313,508)	110,127
Net increase/(decrease) in cash held		(256,924)	3,207
Cash and cash equivalents at 1 July		467,996	566,925
Cash and cash equivalents at 31 December		211,073	570,133

The statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial statement on pages 10-14.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

1 Reporting Entity

Knights Capital Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial statement of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

The consolidated annual financial statement of the Group as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at 20 Kings Park Rd, West Perth WA 6005 and the Company's website (www.knightsgroup.com.au).

2 Statement of Compliance

The consolidated interim financial statement is a general purpose financial statement which has been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial statement does not include all of the information required for a full annual financial statement, and should be read in conjunction with the consolidated annual financial statement of the Group as at and for the year ended 30 June 2011.

This consolidated interim financial statement was approved by the Board of Directors on 13th March 2012.

3 Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial statement are the same as those applied by the Group in its consolidated financial statement as at and for the year ended 30 June 2011 and corresponding interim reporting period.

The half year statement has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Standards not previously applied

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current reporting period.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no affect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half year financial statements.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

4 Estimates

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

In preparing this consolidated interim financial statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statement as at and for the year ended 30 June 2011.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

5 Financial Assets and Investments in Equity Accounted Investees

	31 December 2011 \$	30 June 2011 \$
Financial Assets		
<i>Available for sale</i>		
Investment in Listed Securities (i)	159,500	189,500
Investment in Unlisted Securities (ii)	15,052,381	15,726,281
	<u>15,211,881</u>	<u>15,915,781</u>
Investments in Equity Accounted Investees		
Investment in associate – Formation Design Systems Pty Ltd – equity accounted (iii)	-	488,876
	<u>-</u>	<u>488,876</u>

- (i) As at 31 December 2011 the Company's investments in Listed Securities comprised of Vector Resources Limited Options (market value \$0.002 per option), Dyesol Ltd (market value \$0.26 per share) and Argosy Minerals Inc (market value \$0.15).

The Company purchased 50,000 shares in Argosy Minerals Ind during the period.

An impairment loss of \$42,196 was recognised during the period relating to the Company's investments in Listed Securities.

- (ii) (a) The Company has a 10% interest in Arbortech Industries Ltd ("Arbortech"), an unlisted public company acquired at a cost of \$685,401. 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 \$477,332 or \$0.37 per Arbortech share), was determined with reference to the net assets of the company as at 31 December 2011 (2011: \$0.37 per share).
- (b) The Company acquired an 11.66% interest in Mariner Land Coastal Fund (now Knights Coastal Land Fund) in February 2008 at a cost of \$3,352,250. Based on the Net Assets adjusted for fair value movements, the assessed fair value of the investment has been determined to be \$933,111 (\$0.32 per unit) as at 31st December 2011. Impairment gain of \$95,107 was recognised in the Consolidated Statement of Comprehensive Income for the period.¹
- (c) The Company acquired a 35.00% interest in Cedar Woods Wellard Ltd in February 2008 at a cost of \$8,694,000. Based on the Net Assets the fair value of the investment has been determined to be \$4,003,608 (\$0.71 per unit) as at 31st December 2011. An impairment loss of \$328,335 was recognised in the Consolidated Statement of Comprehensive Income during the current period.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 the Group 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 whom there is no control and as such they are treated as available- for- sale financial instruments.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

5 Financial Assets and Investments in Equity Accounted Investees (continued)

- (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 the 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 \$4,378,463 (\$1.59 per unit) as at 31st December 2011. An impairment loss of \$289,022 was recognised in the Consolidated Statement of Comprehensive Income during the current period.¹
- (e) The Company acquired a 42.00% interest in Mirvac Tourist Park (now Knights 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 \$5,259,868 (\$0.95 per unit) as at 31st December 2011. An impairment loss of \$151,650 was recognised in the Consolidated Statement of Comprehensive Income during the current period.¹
- (iii) During the period the Company sold its 45% interest in Formation Designs Systems Pty Ltd recognising a gain on disposal. 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.

6 Investment Property
Acquisitions

Investment property comprises land situated at 40 Wellington Street, Albany, WA. This property has been developed for park home accommodation, with the land leased to each of the park home owners. During the period the Company completed construction of the central amenities building.

The carrying amount of investment property is the fair value of the developed property as determined by a directors' valuation as at 31 December 2011. This valuation is based on capitalisation of earnings 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 the land and buildings at 22 Wellington Street. As at 31 December 2011 the fair value of the investment property remain unchanged at \$2,040,000.

7 Property, Plant & Equipment
Acquisitions

During the six months ended 31 December 2011, the Company acquired assets with a cost of \$31,035 (Six months ended 31 December 2010: \$36,608).

The carrying amount of the land and buildings is the fair value of the property as determined by a directors' valuation as at 31 December 2011. This valuation is based on capitalisation of earnings 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 the land and buildings at 22 Wellington Street. As at 31 December 2011 the fair value of the land and buildings was determined to be \$3,545,557, there was no unrealised gain or loss recognised during the period.

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 the Group 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 whom there is no control and as such they are treated as available- for- sale financial instruments.

KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

8 Income Tax Expense

Income tax on the income statement for the current period relates to income tax on the profits of Knights Capital Management Pty Ltd. This entity is not part of the Knights Capital Group Ltd consolidated tax entity.

Deferred tax assets have not been recognised in respect to tax losses because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

9 Dividends

	31 December 2011		31 December 2010	
	Cents		Cents	
	per share	\$	per share	\$
Fully paid ordinary shares				
Interim dividend – paid 26 October 2011	0.5	135,431	0.5	135,431
Special Dividend – paid 13 December 2011	1.0	270,862	-	-

Provision for a fully franked dividend of 0.5 cents per share has been made at 31 December 2011.

10 Related party transactions

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 30 June 2011 annual financial statement.

11 Subsequent Events

There has not arisen in the interval between 31 December 2011 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.

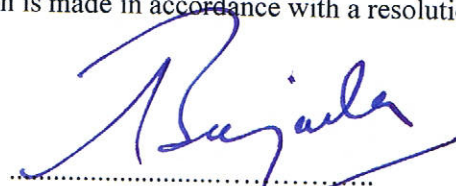
KNIGHTS CAPITAL GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

1. In the opinion of the directors of Knights Capital Group Limited:
 - (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the half year ended on that date; and
 - (ii) compliance with Australian Accounting Standards
 - (b) there are reasonable grounds to believe that the Company and the Group Entities will be able to pay its debts as and when they become due and payable.

This Declaration is made in accordance with a resolution of the directors:

Director


.....
Selwyn John BAJADA

Date:

13th March, 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Knights Capital Group Limited (and its Controlled Entities), which comprises the consolidated Statement of Financial Position as at 31 December 2011, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, Notes comprising a Summary of Significant Accounting Policies and other explanatory information and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001, and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material mis-statement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Half-Year Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date, and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As auditors of Knights Capital Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Knights Capital Group Limited and controlled entities is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and,
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.



ACCRU⁺ PAGE KIRK & JENNINGS
Chartered Accountants



GRAEME ROBERT JENNINGS
Partner

Date: 13th March, 2012
West Perth, WA