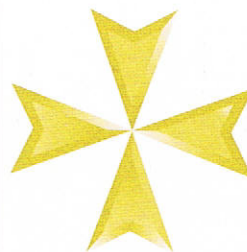


KNIGHTS CAPITAL GROUP

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PO Box 272 Floreat WA 6014
Tel: 61 8 9324 3888 Fax: 61 8 9322 8788
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KNIGHTS

4th January, 2012

Dear Shareholder,

This booklet contains a Notice of General Meeting of Shareholders to be held at **10.00 am (Perth time) on 30 January, 2012** along with an Explanatory Statement which provides additional information on matters to be considered at the General Meeting. A Proxy Form is enclosed in loose form should you wish to vote by proxy.

The General Meeting has been convened to consider the following resolutions:

- To implement and maintain an employee share plan to be called the "Knights Capital Employee Share Scheme" ("the Scheme"). In brief, the Scheme is designed to provide employees of the Company with a motivation to provide continuity of service to the Company and also offers financial assistance for employees to acquire shares pursuant to the Scheme at the discretion of the Directors;
- To approve the provision of a loan of up to \$500,000 to Bajada & Associates Pty Ltd or its nominee to acquire new shares in the Company on similar terms to the Scheme or via the loan facilitate the acquisition (on an arms length basis) by Bajada & Associates Pty Ltd or its nominee of existing shares from those shareholders willing to sell their shares; and
- To approve the insertion into the Company's Constitution of a proportional takeover rule which in effect means that if the Company receives a proportional takeover offer, shareholders will have the opportunity to vote on a resolution to approve the proportional offer or otherwise.

As the Explanatory Statement considers these resolutions in greater detail, I would recommend that it be read in its entirety.

Should you wish to discuss any of the matters the subject of the Notice of Meeting, please do not hesitate to contact the Company.

Yours sincerely

Selwyn Bajada
Executive Chairman

KNIGHTS CAPITAL GROUP LIMITED

ACN 072 769 174

NOTICE OF GENERAL MEETING

TIME: 10.00 am (Perth time)
DATE: 30 January, 2012
PLACE: Level 1, 20 Kings Park Road, West Perth

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company on (+61 8) 9324 3888

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00 am (Perth time) on 30 January, 2012 at:

Level 1, 20 Kings Park Road, West Perth, Western Australia

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important. You may vote by attending the meeting person, by proxy or authorised representative.

VOTING IN PERSON

To vote in person, attend the General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and

- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

NOTICE OF GENERAL MEETING

Notice is given that the General Meeting of Shareholders will be held at **10.00am (Perth time) on 30 January, 2012 at Level 1, 20 Kings Park Road, West Perth, Western Australia.**

The Explanatory Statement provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 5.00pm (Perth time) on 27 January, 2012.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

AGENDA

ORDINARY BUSINESS

1. RESOLUTION 1 – ADOPTION OF SCHEME

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

“That, for the purpose of Section 259B(2) and 260C(4) of the Corporations Act, Rule 27 of the Constitution and for all other purposes, approval is given for the Directors to implement and maintain an employee share plan to be called the “Knights Capital Employee Share Scheme” and to issue Shares under that plan from time to time upon the terms and conditions set out in the Knights Capital Employee Share Scheme (the terms of which are summarised in the Explanatory Statement).”

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

2. RESOLUTION 2 – APPROVAL FOR THE PROVISION OF A LOAN TO BAJADA & ASSOCIATES PTY LTD OR ITS NOMINEE TO ACQUIRE SHARES

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, for the purposes of Section 208 and 260B of the Corporations Act and for all other purposes, approval is given for the Company to provide a loan to Bajada & Associates Pty Ltd or its nominee, an entity controlled by Selwyn Bajada, a Director, of up to \$500,000 to Acquire Shares in Knights Capital Group Limited and otherwise on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Selwyn Bajada and any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

SPECIAL BUSINESS

3. RESOLUTION 3 – INSERTION OF PROPORTIONAL TAKEOVER APPROVAL RULE IN CONSTITUTION

To consider, and if thought fit, to pass the following resolution as a **special resolution**:

"That the Company's Constitution be amended to insert Rule 28.6 into the Constitution as follows-

Rule 28.6 Plebiscite to Approve Proportional Takeover Schemes

28. 6.1 Definitions

In this rule 28.6:

"prescribed resolution", in relation to a proportional takeover scheme, means a resolution to approve the proportional takeover scheme passed in accordance with rule 28.3;

"proportional takeover scheme" means a takeover scheme that is made or purports to be made under section 618(1)(b) of the Corporations Act in respect of shares included in a class of shares in the company;

"relevant class", in relation to a proportional takeover scheme, means the class of shares in the company in respect of which offers are made under the proportional takeover scheme; and

"relevant day", in relation to a proportional takeover scheme, means the day that is 14 days before the end of the period during which the offers under the proportional takeover scheme remain open.

28.6.2 Transfers not to be registered

A transfer giving effect to a contract resulting from the acceptance of an offer made under a proportional takeover scheme must not be registered unless and until a prescribed resolution to approve the proportional takeover scheme has been passed or is taken to have been passed in accordance with rule 28.6.3.

28.6.3 Resolution

28.6.3.1 Where offers have been made under a proportional takeover scheme, the directors must:

(a) convene a meeting of the persons entitled to vote on the prescribed resolution for the purpose of considering and, if thought fit, passing a prescribed resolution to approve the proportional takeover scheme; and

(b) ensure that such a resolution is voted on in accordance with this rule 28.6.3, before the relevant day in relation to that proportional takeover scheme.

28.6.3.2 The provisions of this constitution relating to general meetings apply, so far as they can and with such changes as are necessary, to a meeting that is convened pursuant to rule 28.6.3.1.

28.6.3.3 The offeror under a proportional takeover scheme and any associates of the offeror are not entitled to vote on the prescribed resolution relating to that proportional takeover scheme and if they do vote, their votes must not be counted.

28.6.3.4 Subject to rule 28.6.3.3, a person who, as at the end of the day on which the first offer under the proportional takeover scheme was made, held shares of the relevant class is entitled to vote on the prescribed resolution relating to the proportional takeover scheme and, for the purposes of so voting, is entitled to 1 vote for each such share held at that time.

28.6.3.5 A prescribed resolution is to be taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than one half, and otherwise is to be taken to have been rejected.

28.6.3.6 If a prescribed resolution to approve a proportional takeover scheme has not been voted on in accordance with this rule 28.6.3 before the relevant date, a prescribed resolution to approve the proportional takeover scheme will be taken to have been passed in accordance with this rule 28.6.3 on the relevant day.

28.6.4 Sunset

Rules 28.6.1, 28.6.2 and 28.6.3 cease to have effect at the end of 3 years beginning:

28.6.4.1 where those rules have not been renewed in accordance with the Corporations Act, on the date that those rules were adopted by the Company; or

28.6.4.2 where those rules have been renewed in accordance with the Corporations Act, on the date those rules were last renewed.

DATED: 4TH JANUARY, 2012

BY ORDER OF THE BOARD

**BASIL CONTI
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 10.00am (Perth time) on 30 January, 2012 at Level 1, 20 Kings Park Road, West Perth Western Australia.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions contained in the Notice of Meeting.

1. RESOLUTION 1 – ADOPTION OF EMPLOYEE SHARE SCHEME

1.1 General

To ensure that the Company has appropriate mechanisms to continue to attract and retain the services of directors and employees of a high calibre, the Company has established the “Knights Capital Employee Share Scheme” (**Scheme**).

If adopted, the Scheme will permit the Company to offer eligible participants the opportunity to Acquire Shares under the Scheme at a price determined by the Directors (**Share Price**). The Scheme also allows the Company to make an advance of that sum of money determined by multiplying the number of Shares by the Share Price (**Advance**). A share mortgage will be granted in favour of the Company as security for the loan.

1.2 Corporations Act Requirements

In accordance with sections 259B (2) and 260C (4) of the Corporations Act, the Company seeks Shareholder approval to provide financial assistance to the eligible participants under the Scheme and to receive the benefit of security over the Shares.

Section 260C(4) of the Corporations Act provides that a company may provide financial assistance to a person to acquire shares in the company if it is given under an employee share scheme that has been approved by a resolution passed at a general meeting of the company.

As at the date of this Notice, no Shares have been issued under the Scheme.

The full terms and conditions of the Scheme may be obtained free of charge by contacting the Company. A summary of the terms and conditions of the Scheme is set out below.

1.3 Terms of the Scheme

The material terms of the Scheme for the purposes of this Resolution are as follows:

(a) Purpose

The Scheme is designed to provide employees (including Directors) of the Company (**Eligible Employees**) with a motivation to provide continuity of service to the Company, and increase profitability and returns to Shareholders. The Scheme also offers financial support for employees of the Company to Acquire the Shares pursuant to the Scheme, at the discretion of the Directors.

(b) **Acquisition of Shares**

The Directors may invite Eligible Employees to Acquire Shares under the Scheme at their discretion. The Shares issued under the Scheme (**Scheme Shares**) will be either new fully paid ordinary shares in the capital of the Company or existing issued shares and will rank equally with the Company's other issued Shares.

(c) **Share Price of Share Scheme Shares**

The Share Price of each Scheme Share will be determined by the Directors at or before the time of the invitation to Acquire Shares under the Share Scheme. The total Share Price for the Scheme Shares is to be paid for in full by the Eligible Employee on the date of issue or transfer of the Scheme Shares.

Where the Scheme Shares are issued or transferred for cash consideration, the Directors may, at their absolute discretion, determine that the whole or part of the Share Price will be advanced by the Company to the Eligible Employee, who must apply the advance in payment of the issue/transfer price.

(d) **Restriction on Transfer of Scheme Shares**

A participant in the Share Scheme must not sell, transfer, assign, mortgage, charge or otherwise encumber the Scheme Shares until the later of the following (to the extent applicable):

- (i) the repayment in full of any loan advanced by the Company to the participant contemporaneously with the issue of the Scheme Shares;
- (ii) the expiry of any service continuity period specified by the Company at the time of issue of the Scheme Shares;
- (iii) the satisfaction of any performance criteria specified by the Company at the time of issue of the Scheme Shares; and
- (iv) upon receipt of the prior consent of the Company to the sale, transfer, assignment, mortgage or charge of the Scheme Shares.

The Directors may impose different continuity of service and performance criteria in relation to different persons, and the Directors will have the absolute discretion to determine whether any such service continuity or performance criteria have been satisfied in relation to any Participant, or to waive that service continuity or performance criteria in relation any Participant.

If an Eligible Employee ceases to be an Eligible Employee of the Company during the period of restriction (either because of resignation, or removal from office), or the above criteria are not satisfied by the Eligible Employee, the Company may require the Eligible Employee to repay the loan in full upon cessation of appointment (or such other time as determined by the Directors in accordance with the terms of the Scheme and as specified in the terms of the particular offer to subscribe for Shares under the Scheme) or may buy-back the Scheme Shares the subject of the restriction under Part 2J.1 of the Corporations Act at a price equal to:

- (i) where the Scheme Shares were issued for no cash consideration - \$0.001 each; or
- (ii) where the Scheme Shares were issued or transferred for cash consideration – the balance of the loan outstanding in respect of the Shares unless the Directors determine that this amount should be reduced.

(e) **Eligible Employees**

Employees of the Company (including Directors) of the Company or an associated body corporate are eligible to participate in the Share Scheme.

(f) **Powers of the Board of Directors**

The Scheme is administered by the Directors of the Company, who have the power to:

- (i) determine procedures for the administration of the Scheme;
- (ii) amend or waive the terms and conditions of the Scheme; and
- (iii) suspend or terminate the Scheme.

(g) **Structure of the Loan**

Where the Directors determine that the whole or part of the Share Price will be advanced by the Company to the Eligible Employee, that advance must be applied in payment to the Company of the Share Price.

During the term of any such loan, the borrower may be permitted to sell some or all of the Scheme Shares provided that the borrower has obtained the Company's prior written consent to the sale, and the proceeds of the sale are applied to repayment of the loan, in such amounts and on terms specified by the Board in accordance with the Scheme.

The borrower must repay the loan to the Company on the earlier of:

- (i) a fixed period determined by the Board at the time of issue from the date of allotment of the Scheme Shares to which the loan relates;
- (ii) the date on which the borrower ceases to be employed by the Company (if the borrower has resigned or been removed from office) (or such other date following cessation of employment that the Board determines at the time of issue);
- (iii) in the event of a takeover offer – within 1 month of the date on which the Board recommends acceptance of that offer; or
- (iv) the date on which the Company buys-back the Scheme Shares pursuant to the rules of the Share Scheme.

(h) **Security**

Any advance made by the Company to the Eligible Employee may be secured by the Company receiving a mortgage over the Scheme Shares.

2. RESOLUTION 2 – APPROVAL FOR THE PROVISION OF A LOAN TO BAJADA & ASSOCIATES PTY LTD OR ITS NOMINEE TO ACQUIRE SHARES

2.1 General

It is proposed that the Company provide a loan of up to \$500,000 to Bajada & Associates (or its nominee) to fund the consideration for Shares that may be Acquired by Bajada & Associates (**Loan**).

The Loan will be unsecured and will be limited recourse, in that if Bajada & Associates defaults in repayment of the Loan, the amount to be repaid under the Loan is limited to the value of the Shares purchased by Bajada & Associates as at the date of default. For the avoidance of doubt, if the value of the Shares is greater than \$500,000, the amount to be repaid will be \$500,000.

Bajada & Associates acts as Manager of the Company and is controlled by Mr Selwyn Bajada, the current Managing Director of the Company. Shareholder approval is required for the provision of a loan to Bajada & Associates pursuant Section 208 of the Corporations Act as well as for providing financial assistance to a person to Acquire shares in the Company pursuant to Section 260B of the Corporations Act.

2.2 Shareholder Approval (Section 208 and 260B of the Corporations Act)

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. Section 208 of the Corporations Act provides that, for a public company to give a financial benefit to a related party of the company, the company must:

- (a) obtain the approval of the company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

The provision of a loan by the Company constitutes the giving of a financial benefit, and as an entity controlled by a Director, Bajada & Associates is considered to be a related party of the Company.

Under Section 260A of the Corporations Act, a company may financially assist a person to acquire shares in the company only if:

- (a) giving the assistance does not materially prejudice the interests of the company, its shareholders or the company's ability to pay its creditors;
- (b) the assistance is approved by shareholders under Section 260B of the Corporations Act; or
- (c) the assistance is exempted under Section 260C of the Corporations Act (which includes an exemption in relation to assistance given under an approved employee share scheme).

As the Loan is limited recourse, the Company considers that the provision of the Loan may be considered to materially prejudice the interests of the Company.

As a consultant, Bajada & Associates, does not classify as an Eligible Participant under the Scheme (being the Employee Share Scheme the subject of Resolution 1). As Bajada & Associates acts as an independent Manager to the Company and is not a director or employee of the Company, Bajada & Associates may not participate in the Scheme, and the exemption under Section 260A of the Corporations Act for financial assistance for employee share schemes will not apply.

As a result of the above, the Company is seeking Shareholder approval under Sections 208 and 260B of the Corporations Act to provide the Loan to Bajada & Associates (or its nominee) in order for it to Acquire Shares in the Company.

2.3 Information required by sections 217 to 227 and 260B of the Corporations Act

In accordance with the requirements of Sections 217 to 227 and 260B of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed provision of the Loan to fund payment of the consideration for Shares Acquired by Bajada & Associates:

- (a) as an entity controlled by a Director, Bajada & Associates is a related party of the Company to whom proposed Resolution 2 would permit the financial benefit to be given in order to Acquire Shares in the company;
- (b) the nature of the financial benefit to be given to Bajada & Associates is the provision of the Loan in respect of the consideration for Shares to be Acquired by Bajada & Associates;

- (c) the Loan will be provided under the terms and conditions set out in Section 2.1 of this Explanatory Memorandum. The consideration for the Shares to be Acquired by Bajada & Associates shall be determined by the Director's (on the same terms of the Scheme) or on arm's length terms upon a Shareholder proposing to sell their Shares to Bajada & Associates. If the value of the Shares increases, Bajada & Associates will benefit from the price increase, however, the Company will not receive any additional benefit;
- (d) the repayment term of the Loan shall be 5 years or such earlier time as agreed between the Company and Bajada & Associates;
- (e) as at the date of this Notice of Meeting, Mr Bajada holds the following relevant interests in securities in the Company:
- (i) 1,053,572 Shares;
- (f) the remuneration and emoluments payable by the Company to Bajada & Associates for both the last two financial years are set out below:
- (i) for the financial year 2010 - \$239,390; and
- (ii) for the financial year 2011 - \$254,541.
- (g) the approval of Resolution 2 will result in no immediate Shares being issued.

The Directors are yet to determine the number of Shares to be issued to Bajada & Associates, and whether these Shares will be transferred from an existing Shareholder or issued as new Shares.

If the Shares are transferred from an existing Shareholder, there will be no increase in the number of Shares on issue and there will be no dilution of existing Shareholders, however the interest held by Mr Bajada in the total issued capital of the Company will still increase.

In order to show the potential effect of the Loan on the Company, the maximum dilution effect of the Loan is set out in the table below (based on the assumption that \$500,000 of Shares are transferred to Bajada & Associates).

The Company currently has 25,286,183 Shares on issue.

The price of the Shares has been calculated at \$0.50 per Share, being the same price paid pursuant to the Company's buy-back offer dated 11 November 2011. At a price of \$0.50 per Share, the maximum number of Shares to be issued to Bajada & Associates would be 1,000,000 Shares (being an interest of approximately 3.95% of the current issued share capital of the Company).

Related Party	No. Shares held as at date of this Notice	Percentage of issued capital held as at date of this Notice (assuming no new Shares issued) (%)	No. Shares held after maximum Shares Acquired through Loan	Percentage of issued capital after acquisition of Shares (%)
Mr Bajada	1,053,572	4.17%	2,053,572	8.12%

If **new** Shares are issued to Bajada & Associates, the total issued capital of the Company will increase from 25,286,183 to 26,286,183, with existing Shareholders being diluted by 3.8%. Mr Bajada's relevant interest will increase by 1,000,000 Shares, being a total interest of 7.81%.

- (h) the value of the financial benefit to be provided to Bajada & Associates will be \$500,000, being the value of the Loan;
- (i) the primary purpose for the provision of the Loan to Bajada & Associates to Acquire Shares is to provide an incentive to Selwyn Bajada in his capacity as an Executive Director and to assist in the reward, retention and motivation of Selwyn Bajada in the ongoing operations and strategic direction of the Company.

The Board (other than Selwyn Bajada) considered the extensive experience and reputation of Selwyn Bajada, the current value of Shares in the Company and current market practices when determining the value of the Loan. The Board considers the provision of the Loan to Bajada & Associates in order to Acquire Shares to be reasonable upon the terms proposed;

- (j) the Directors consider that there may be a potential opportunity cost to, and benefit foregone by, the Company in providing the Loan to Bajada & Associates upon the proposed terms insofar as:
 - (i) there is no interest payable on the Loan by Bajada & Associates; and
 - (ii) the Loan is limited-recourse. Therefore, if the value of the Shares is less than the price paid by Bajada & Associates in Acquiring the Shares at the date of repayment of the Loan, the Company is unlikely to recoup the full face value of the Loan;
- (k) the Company will not incur any costs or fees in relation to providing the Loan to Bajada & Associates, other than a value equal as determined in accordance with the accounting standards attached to the Shares purchased by Bajada & Associates with the funds provided under the Loan;
- (l) if the Loan is not provided to Bajada & Associates in order to Acquire Shares, the Company could remunerate Mr Bajada's management company for an additional amount or provide alternative means of remuneration.

The Board considered these alternative remuneration options and considered the provision of the Loan as the best alternative because it is in the best interests of the Company and provides Mr Bajada's company with an incentive directly linked to the operations of the Company.

In addition, the Board considers it reasonable for the remuneration of the Director to have a cash component and a Share equity component to further align Mr Bajada's interests with Shareholders.

As outlined above, there are alternate options available to providing the Loan to Bajada & Associates in respect of his remuneration and accordingly, Shareholders should consider the above matters carefully before deciding how to vote on Resolution 2.

Shareholders should note that due to the nature of the "asset" being a limited-recourse loan, the Loan is considered an asset of the Company and there is a possibility that it will not be repaid. Therefore, the impact of the Loan on the Company's balance sheet should be considered in this context.

In addition, if the Company was to enter into any funding arrangements in the future which are reliant on a prescribed debt-asset ratio and subject to certain contingencies, the nature of the Loan may affect the Company's borrowing capacity; and

- (m) **Independent Directors Basil Conti and Ron Peterson who do not have a material personal interest in the outcome of Resolution 2 recommend that Shareholders vote in favour of Resolution 2 for the reasons set out in sub-paragraphs (j), (k) and (l) above.** The independent Directors not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 2.

3. RESOLUTION 3 - INSERTION OF PROPORTIONAL TAKEOVER APPROVAL RULE IN CONSTITUTION

The insertion of a new Rule 28.6 to the Constitution will provide that the Company is prohibited from registering a transfer of shares resulting from a proportional takeover scheme unless and until shareholders in general meeting approve the offer. This Rule is designed to assist shareholders to receive proper value for their shares if a proportional takeover scheme bid is made for the Company. In accordance with the Corporations Act, this Rule ceases to have effect at the end of the third anniversary of its adoption.

The Directors consider that it is in the best interests of the Company's shareholders to have a proportional takeover rule in the Constitution and shareholders are asked to consider a resolution to insert such a rule.

3.1 Effect of a Proposed Proportional Takeover Approval Rule

Proposed Rule 28.6 requires that, if a proportional takeover scheme bid is received, Directors are to convene a meeting of shareholders to vote on a resolution to approve the proportional offer. The meeting must be held, and the resolution voted upon, at least 15 days before the close of the offer. Rule 28.6 provides that for a resolution to be approved, it must be passed by a majority of votes at the meeting, excluding votes by the offeror and its associates. If a meeting is not held, a resolution approving the proportional offer will be deemed to have been passed. If a resolution is rejected by shareholders, the registration of any transfer of shares resulting from the proportional offer will be prohibited and the offer deemed withdrawn. If approved, the relevant transfers of shares to the offeror will be registered, provided they comply with the other provisions of the Constitution.

This Rule will cease to have effect at the end of the third anniversary of its adoption, unless renewed by a special resolution of shareholders.

3.2 Reasons for Proposing the Resolution

The Corporations Act permits the inclusion and renewal of takeover approval provisions in the Company's Constitution. The Directors consider that shareholders should have the opportunity to vote on a proposed proportional takeover scheme bid. Without proposed Rule 28.6, a proportional takeover scheme bid for the Company may enable control of the Company to be acquired by a party holding less than a majority interest and without shareholders having the opportunity to dispose of all their shares, with the attendant risk of shareholders being left as part of a minority interest. Rule 28.6 will prevent this situation arising without shareholder approval.

3.3 No Present Acquisition Proposals

As at the date of this notice, no Director is aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company.

3.4 Advantages and Disadvantages

The Corporations Act requires this Explanatory Statement to discuss the potential future advantages and potential disadvantages, for Directors and shareholders, of the proportional takeover scheme provisions that are proposed to be inserted.

The Directors consider that there are no potential advantages or disadvantages for the Directors which may result from Rule 28.6 being inserted, as they retain the ability to make a recommendation to shareholders on whether a proportional takeover offer should be approved or rejected. The potential advantages of Rule 28.6 for shareholders are that the provisions give all shareholders (other than the offeror and its associates) an opportunity to study the terms of a proportional takeover proposal to determine whether it is in their best interests that it proceed and, on that basis, enables shareholders to decide whether or not to accept the offer.

Rule 28.6 should ensure that the terms of any future proportional takeover offers are structured so as to be attractive to a majority of independent shareholders, and may also assist shareholders to avoid being locked into a minority position. However, it may be argued that Rule 28.6 reduces the

possibility of a successful proportional takeover bid and that as a result proportional takeover offers for the Company may be discouraged. This in turn may reduce the opportunities which shareholders may have to sell some of their shares at an attractive price which includes a premium for control. It may also be said that Rule 28.6 imposes an additional restriction on the ability of individual shareholders to freely deal in their shares.

3.5 Recommendation

The Directors consider that the potential advantages of inserting Rule 28.6 for three (3) years outweigh the potential disadvantages to shareholders. **The Directors unanimously recommend that shareholders vote in favour of this resolution to ensure that any takeover proposal is a full bid unless shareholders approve a proportional bid.**

4. ENQUIRIES

Shareholders are requested to contact the Company on (+61 8) 93243888 if they have any queries in respect of the matters set out in these documents

GLOSSARY

\$ means Australian dollars.

Acquire or Acquired means in relation to Shares either the issue of new Shares or the transfer of existing issued Shares in the Company

ASIC means the Australian Securities and Investments Commission.

Bajada & Associates means Bajada & Associates Pty Ltd (ABN 68 059 7781 770) or its nominee.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001 (Cth)*.

Company means Knights Capital Group Limited (ACN 072 769 174).

Constitution means the Company's constitution.

Corporations Act means the *Corporations Act 2001 (Cth)*.

Directors mean the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

General Meeting or **Meeting** means the meeting convened by the Notice.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Notice or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and the Proxy Form.

Proxy Form means the proxy form accompanying the Notice.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share or **Shares** means a fully paid ordinary share(s) in the capital of the Company.

Shareholder means a holder of a Share.

PROXY FORM

APPOINTMENT OF PROXY
KNIGHTS CAPITAL GROUP LIMITED
ACN 072 769 174

GENERAL MEETING

I/We _____
of _____
being a member of Knights Capital Group Limited entitled to attend and vote at the General Meeting, hereby
Appoint _____
Name of proxy

OR ☐ the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the General Meeting to be held at 10.00 am (Perth time), on 30 January, 2012 at Level 11, 20 Kings Park Road, West Perth, Western Australia, and at any adjournment thereof.

☐ If the Chair of the General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 1, 2 and 3** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 1 and 2 and that votes cast by the Chair of the General Meeting for Resolutions 1 and 2 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 1 and 2 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 1 and 2.

If no directions are given, the Chair will vote in favour of all the Resolutions in which the Chair is entitled to vote undirected proxies.

OR

Voting on Business of the General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Provision of financial assistance to Bajada & Associates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Insertion of Proportional Takeover Approval Rule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.
If two proxies are being appointed, the proportion of voting rights this proxy represents is

Signature of Member(s):

Date: _____

Individual or Member 1

Member 2

Member 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ Contact Ph (daytime): _____

KNIGHTS CAPITAL GROUP LIMITED
ACN 072 769 174

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) Post to Knights Capital Group Limited at PO Box 272, Floreat WA 6014; or
 - (b) Facsimile to the Company on facsimile number +61 8 9322 8788; or
 - (c) Email to the Company at knightsgroup@iinet.net.au,

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy forms received later than this time will be invalid.