KNIGHTS CAPITAL GROUP

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KNIGHTS

3rd October, 2011

Dear Shareholder,

It is with pleasure that I present the 2011 Annual Report.

As shareholders may be aware, we are still witnessing volatile market conditions throughout the world particularly in the United States and now more recently in Europe with concerns about sovereign debt and the banking system. The risk of a US/European double-dip recession now looms. Generally speaking, Australia has been fortunate with its focus on Asia (particularly China) to have avoided such volatility although the impact of a further contraction in the developed world would no doubt present issues for Australia. While monetary policy has been tightened to stop the Australian economy from overheating (due to the resources sector) consumer spending has weakened as a result. This weakness has filtered through the economy with trading conditions now running at a more moderate level. The Western Australia and Queensland resources sector continues to show great resilience and both these economies will continue to expand at a faster rate than the non-resource states.

For the Group, the 2010/11 financial year was relatively stable compared to prior years. The Group recorded a decrease in **net asset backing per share to $0.71** (2010:$$0.87) primarily due to a value impairment of a non-property investment - Arbortech Industries Ltd. Knights Capital Management Pty Ltd again provided a positive contribution in its role as the fund manager for the Knights Tourist Park Fund and the Knights Coastal Land Fund. The Group's remaining investments performed satisfactorily.

The Directors are pleased to advise that **a fully franked final dividend of 0.5 cents per share** has been recommended for the six month period from 1 January 2011 to 30 June 2011 Shareholders that are registered on the 21st October, 2011 will be eligible for this dividend payable on the 28th October, 2011.

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

Please find enclosed the Notice of Annual General Meeting for 2011 and the Financial Statements for the year ended 30 June 2011. The meeting has been convened for **10.00 am 11 November 2011 at Level 1, 20 Kings Park Road, West Perth.**

Yours sincerely

Selwyn Bajada
Executive Chairman

Managing Director's Review
2010/2011

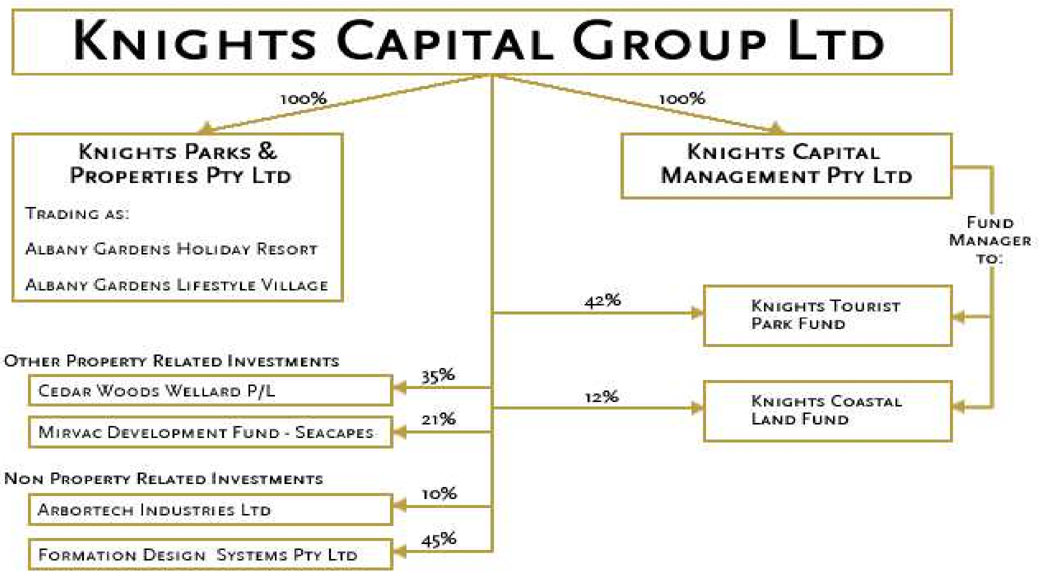
Introduction

The 2010/11 financial year could be characterized as one of consolidation for the Group. Management's time this year was allocated to Knights Capital Management Pty Ltd (in its role as fund manager to the Knights Tourist Park Fund and Knights Coastal Land Fund); addressing operational issues within Knights Parks & Properties; and a more pro-active involvement with the Group's other core property interests particularly Cedar Woods Wellard Ltd.

Financial - Key Group Performance Indicators

- Total assets decreased by $3,659,826 to **$23,424,689** (2010**:** $27,084,515) comprised of:
  - A decrease in financial assets to $15,915,781 (2010: $19,726,513) principally due to a carrying value impairment to the Arbortech Industries Ltd interest; and
  - An increase in property, plant and equipment to $3,861,002 (2010: $3, 295,135)
- Net Assets decreased by $4,236,165 to **$19, 279,091** (2010: $23,515,256)
- Net Asset Backing per share decreased to **$0.71** (2010: $0.87)
- An increase in Gearing to **13.3%** (2010: 9.6%)
- A decrease in cash **to $467,996** (2010: $566, 925)
- A decrease in Loss after Tax to **$500,567** (2010: ($1,075,163))
- Earnings per Share of **($0.02)** (2010: ($0.04))
- Recommended fully franked final dividend to 30 June 2011 of **0.5 cents per share** (2010: 0.5 cents per share)

Knights Group Corporate Structure



Operations and Investments

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

KP&P holds the Group's interest in the Albany Gardens Holiday Resort **("AGHR")** and Albany Gardens Lifestyle Village **("AGLV").** It was pleasing to see both key revenue drivers for AGHR and AGLV increase for the year. AGHR's tourism and rental accommodation increased 7.3% whilst AGLV's rental revenue increased 41% reflecting the maturity of the project following the number of site leases entered into. Consequently, this year there was less revenue from the sale of park homes. The total combined revenue decreased to $2,102,990 (2010:$2,942,349) however, total assets increased 8.6% to $6,126,211 (2010:$5,642,022) with net assets increasing 43% to $721,264 (2010: $505,297).

In August 2011, the Bankwest borrowing facilities were successfully extended to February 2014.

At the individual business level, AGHR occupancy levels for the year were stable. In March 2011, AGHR adopted a new booking management system (PAM) developed by BIG4. PAM has already proven to be a useful resource for staff in Albany and for management in Perth. PAM allows guests to provide immediate feedback on their stay upon departure as well as producing other accounting and analytical reports. Marketing has also benefited from the data produced by PAM. The web page www.albanygardens.com.au continues to be the primary promotional vehicle for AGHR and its social media functionality (viz Facebook, blogs etc) are utilized extensively.

Project managing the construction of the tenants' common facilities building occupied a considerable proportion of management's time during the year. Commenced in August 2010, subsequent financial problems associated with the builder caused construction to extend into the early part of 2011 - well beyond the agreed date set for practical completion. Eventually, the building was completed and the tenants are now enjoying the premises and its facilities. Of the 45 park home sites, 40 sites were occupied via long-term lease agreements (generating a rental of $115.00 per week per home). It is envisaged that the remaining sites will be leased by the middle to late of 2012.

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 $359,048 (2010:$417,948) and a net profit of $109,975 (2010:$157,754). KCM declared dividends of $100,000 during the year.

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 2011, the Fund size was $ 12.96 million with a net tangible asset per unit of $0.98 (2010:$0.95). For this interest, the Group reflects a carrying value in the accounts of $5,411,518 (2010:$5,235,083) and a current year impairment gain of $176,436 (2010: ($519,223)). The Fund made no distributions during the financial year however, unitholders have been advised there will be a distribution of 2.5 cents per unit for the first quarter 2011/2012. During the year, the unitholders agreed to extend the term of the Fund until April, 2016.

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 2011, the Fund size was $7.2 million with a net tangible asset per unit of $0.29 (2010:$0.39). For this interest, the Group reflects a carrying value in the accounts of $838,004 (2010:$1,145,129) and a current year impairment loss of $307,124 (2010: ($336,508)). For the financial year, the Group received Fund income distributions totaling $17,490 (2010:$34,980). In June, 2011 the unitholders agreed to extend the term of the Fund until December, 2016. The Group did not participate in a Withdrawal Offer made to unitholders at year end.

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

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 2011, the Fund size was $21.6 million (2010:$20.4m) with a net tangible asset per unit of $1.69 (2010:$1.60) an increase of 5.6% over the year. For this interest, the Group reflects a carrying value in the accounts of $4,667,484 (2010: $4,412,800) and a current year impairment gain of $254,684 (2010:$547,459).

The Seascapes Project is a ten stage programme to sell 555 lots of which 377 lots (or 66%) have been either sold or exchanged. Going forward, the Manager expects sales "to remain sluggish due to a combination of price sensitivity driven by buyer affordability concerns and the continuing run-down of the over supply of titled lots from developers and resales from private sellers." The Manager forecasts a pre-tax return of $3.29 per $1.00 invested. The cash element of this is forecast to be $2.58 of which $0.58 was distributed in March, 2008 leaving $2.00 to be distributed over the remaining life of the Fund.

As the largest unitholder in the Fund, the Group made representations to the Manager in regards to distribution policy. These were positively received and it is envisaged that distributions may commence after 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 620 lots. Final lot yield will be dependent upon market demand for various lot sizes. The company completed the first stage of development during the year. The first stage comprised 86 lots and as at 30 June, 2011 84 lots were settled. Further stages 2A, 2C and 3A were also completed comprising 90 lots of which 55 lots were settled as at year end. Stage 3B comprising 48 lots is proceeding with settlements to commence in October, 2011.

For this interest, the Group reflects a carrying value in the accounts of $4,331,943 (2010:$4,740,719) and a current year impairment loss of $408,776 (2010:$1,742,405). As at 30 June 2010, Company net assets were $12.4m (2010:$13.5m) with a net tangible asset per share of $0.77 (2010:$0.85). Shareholders are invited to review the Company's operations at: www.emeraldpark.com.au

Arbortech Industries Ltd – Group Interest 10%

The principal activities of Arbortech were the manufacture and sale of its range of cutting tools and accessories for the Allsaw and Woodcarver technologies. As mentioned in last year's report, the Arbortech Board appointed US corporate advisers to assist with implementation of its global strategy.Whilst the advisers indicated that Arbortech would be well received in the US capital markets and were able to make key introductions unfortunately, these failed to proceed to a transaction level. In the absence of any material share transactions during the financial year the carrying value of the investment was adjusted to $477,332 (2010:$4,192,784) with an impairment loss of $3,715,451 (2010: Nil). Shareholders are referred to Arbortech's web site at www.arbortech.com.au for further information on products and activities.

Formation Design Systems Pty Ltd – Group Interest 45%

The principal activities of Formation were the development and distribution of its computer aided design software suite of products to the marine, shipbuilding and construction industries. Formation was able to generate revenues of $2,049,459 (2010:$2,052,354) and a loss from ordinary activities after income tax of $10,695 (2010:$32,017 profit). This investment is accounted for by the Group using the equity method which resulted in a share of the net loss $4,887 (2010:$14,408) and net assets $488,876 (2010:$493,763) being incorporated into the Group consolidated accounts.The Group received no dividend from Formation during the year (2010:$22,500).

At the time of writing, the Formation Board had received a conditional Letter of Intent from a US based company seeking to acquire all the shares. The due diligence process is reasonably well advanced which, if completed successfully, could result in an October transaction closure. Shareholders will be updated as soon as a more definitive position is known. Shareholders are also referred to Formation's web site at www.formsys.com for further information on products and activities.

Corporate

A fully franked final dividend of 0.5 cents per share has been recommended for the six month period from 1 January 2011 to 30 June 2011. Knights Investments (Aust) Pty Ltd was incorporated on 8th June, 2011 to consider investment opportunities in industries that are external to those that presently comprise the Group's interests. At financial year end, the Company's issued ordinary capital totaled 27,086,183.

Selwyn Bajada
Managing Director