



Future Dividend Policy

The Board of Knights Capital Group Ltd (“KCGL”) takes this opportunity to update shareholders on its future dividend policy.

As the law stands at present, dividends may only be paid out of company profits which is commonly known as the “profits test”. Industry has raised a number of concerns with the profits test the principal one being that the nature of accounting principles for the calculation of profits has changed over time. Australian accounting standards are increasingly linked to the fair value (whether realised or unrealised) impacting on the profitability of the company by the inclusion of a number of non-cash expenses in the net result. In these circumstances, a company may have sufficient cash to pay a dividend but is unable to do so because the accounting profits have been eliminated by non-cash expenses.

This impact on profitability has been felt by KCGL which has over the last two financial periods incurred a non-cash expense termed “Impairment of financial assets”. This in effect is an unrealised adjustment to KCGL’s assets to reflect fair value. Technically speaking, if this non-cash expense (impairment) was reversed KCGL would have made an accounting profit for the last two years.

A bill has been introduced into Federal Parliament (for consideration in the 2010 autumn sittings) which proposes to repeal the profits test and replace it with a new test which will enable a company to pay dividends provided its assets exceed its liabilities (and the excess allows for the payment of the dividend); ensures that the payment of the dividend is fair and reasonable to its shareholders as a whole; and that the dividend does not materially prejudice the company’s ability to pay its creditors.

In the event this bill is passed into law (anticipated to be by the third quarter 2010), the KCGL Board presently believes the Company may be in a position to satisfy the new test and consider a dividend to shareholders for the year ending 30 June 2010. The dividend cents per share would be determined upon final audited accounts and KCGL’s level of cash reserves and working capital requirements at such time.

Shareholders are invited to monitor KCGL’s website www.knightsgroup.com.au for updates on this matter.

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