



## December 2010

### Investor Update

#### Fund update

During the period to 31 December 2010 the Fund focused on reducing its debt exposure. A total of \$750,000 was repaid during the period with further repayments planned in the coming months.

The Fund continued to work with the Northern Territory Power and Water Corporation and FreeSpirit management in pursuing a connection to the main sewerage system for the FreeSpirit Resort, Darwin.

#### Fund Overview

##### Distributions

No distributions were paid in the six month period to 31 December 2010. The Fund has retained cash to contribute to completion of the sewerage works at Darwin and further reduce its debt exposure

##### Portfolio overview

As at 31 December 2010, the Fund's two assets were 100 per cent occupied and are 100 per cent weighted to the tourist park sector.

Details of the Fund's portfolio, including the latest asset revaluations, are summarised in the table below:

Property	Location	Acquisition date	Valuation date	Independent valuation \$m <sup>1</sup>	Book value \$m	Capitalisation rate %	Area hectares
Free Spirit Resort, Darwin	NT	Mar 2004	Dec 2009	23.0	21.8	10.5	11.3
Fraser Lodge, Hervey Bay	QLD	Nov 2005	Jun 2010	8.5	8.0	9.0	3.2
<b>TOTAL PROPERTY PORTFOLIO</b>				<b>31.5</b>	<b>29.8</b>		<b>14.5</b>

<sup>1</sup> Valuation includes chattels of \$1.5 million owned by FreeSpirit Resorts Pty Ltd for which a loan is held with the Fund.

## Performance

The Fund's Net Tangible Assets (NTA) increased to **\$1.00 per unit at 31 December 2010** from \$0.95 per unit as at 30 June 2010. The increase in NTA was primarily due to no distributions being paid during the period and the reduction in bank debt.

## Valuations

Independent valuations were last undertaken by Colliers International on both of the Fund's assets during the financial year ending 30 June 2010. Independent valuations of investment properties are conducted at least once every two years and in accordance with the *Corporations Act 2001*.

Valuation information is disclosed in the half year and full year financial statements for the Fund which is available from the Fund's website.

## Geographic diversification

The Fund's property assets are weighted, by book value, 73 per cent to the Northern Territory and 27 per cent to Queensland market.

## Lease expiry profile

The weighted average lease expiry profile, by income, is 5.1 years.

## Top tenants

The tenants listed in the table below, provide five per cent or more of the Fund's gross income.

Tenant	%
FreeSpirit	85
Australian Fuel Distributors	15
<b>Total %</b>	<b>100</b>

## FreeSpirit Resort Darwin

A premature start to the wet season in September resulted in an early finish to the peak dry season, with many guests curtailing their stay. This, along with very slow corporate activity in the Darwin market, saw a record low trading result for the past 5 months.

Darwin is experiencing one of its worst tourist and trading seasons in many years with major suppliers and accommodation providers reporting very poor results.

Major electrical storms during November and December 2010 caused significant electrical damage, power outage and disrupted trade. Cyclone Carlos (category 2) hit Darwin in February 2011 with only superficial damage to the Resort being reported. Significant repairs to the electrical system have since been completed. Management continues with an intensive landscaping and maintenance campaign in preparation for the next dry season.

The recently opened Quest hotel in nearby Palmerston is providing another level of competition in the local market, particularly in the conference and corporate markets. Localised marketing is being undertaken to address this.

Tracking of guest feedback indicates a high level of guest satisfaction (other than for sewer odours) and forward bookings for the dry season are reasonable at present.

In late December 2010/early January 2011, the Fund negotiated an improved arrangement with the Northern Territory Power and Water Corporation ("PWC") to facilitate a connection of the FreeSpirit Resort to the main sewer line. While the cost sharing arrangement remains, the key components of the infrastructure are now:

- The construction of the rising main (the pump station has been deferred); and
- The construction of the road crossing at Stuart Highway.

This above infrastructure will be project managed, owned and maintained by PWC. The design phase has been completed. Arup Pty Ltd have been appointed by the Fund as consultants for the internal works on the Resort to connect to the main sewer line. Project completion is scheduled for mid-year.

### **Fraser Lodge, Hervey Bay**

In addition to the ongoing oversupply issue facing Hervey Bay, Queensland tourism in general has been affected by the GFC, the high Australian dollar and more recently the impact of cyclonic and flooding weather conditions.

With regard to Fraser Lodge, these factors have had a moderate impact on occupancy levels and a major impact on the revenue from sales of tour packages. The closure of one of the major tour operators has further exacerbated the situation, limiting guest choices of tours.

With the exception of the 12 Studio Units which have been closed due to structural concerns, all other levels of accommodation have traded in line with last year's levels which is considered a good result in the current climate. This compares favourably with other operators reporting falls in revenue of up to 40%.

Tariffs remain under pressure in a market dominated by oversupply and continued discounting however, Fraser Lodge is positioned as the premier park and as such has had some success in maintaining reasonable tariffs against its competitors.

Fraser Lodge suffered the impacts of severe weather in November and December and Cyclone Yasi which resulted in closure of the Bruce Highway and localised flooding. The park did not suffer any major damage however, there were many cancellations of bookings over the Christmas trading period.

Forward bookings for Easter are strong and the winter season is looking reasonable at this stage. Guest feedback regarding their holiday experience at Fraser Lodge is excellent.

The Fund Manager is working with the Lessee to develop solutions following closure of the Studio Units.

## Debt management

### Debt facility

Year ended	31 Dec 2010
Total interest bearing debt facility	\$20.6m
Total interest bearing debt (drawn)	\$19.8m
Hedging ratio	52.7 %
Weighted average hedge rate	6.06%
Weighted average hedge maturity	1.8 yrs
Loan to Value ratio <sup>1</sup>	62.8%
Interest cover <sup>2</sup>	1.93times
<b>Key Terms of Facility</b>	
Expiry	31 Oct 2012
An Amortising Facility	\$90,000 per quarter
Financial Covenants – Interest Cover	1.85 times to 31/3/2012 (then 2.0 times)
Loan to Value Ratio	65.1%

<sup>1</sup> The loan to value ratio is calculated using information from the Fund's Financial Statements as at 31 December 2010 and indicates the extent to which the Fund's assets are funded by borrowings. It is calculated by dividing the total interest bearing liabilities by the external valuation of the total property assets

<sup>2</sup> Interest cover ratio is calculated using information from the Fund's Financial Statements as at 31 December 2010 and indicates the extent to which the Fund is able to meet its interest payments from earnings. It is calculated by dividing earnings before interest income tax, depreciation and amortisation (EBITDA) less unrealised gains plus unrealised losses by interest expense.

In anticipation of a potential breach of the Interest Cover Ratio the Fund Manager successfully negotiated a Variation of the Loan Offer, reducing the Interest Cover Ratio covenant to 1.85 times from 31 December 2010 to 31 March 2012. Current forecasts indicate the ICR will be in excess of 2 times by January 2012.

During the period the Fund repaid \$750,000 off its debt facility. It is the intention of the Fund Manager to take a pro-active approach to further reduce this facility in the coming financial year.

### **Redemption availability**

As outlined in the Product Disclosure Statements dated 29 March 2004 and 17 October 2005, no redemption or exit facility will be offered during the term of the Fund.

The maximum investment period was 12 years from 2004 (March 2016). After seven years (March 2011), the Fund will be terminated if the holders of 75 per cent of the Units on issue elect to do so.

### **Going forward**

#### **Distributions**

The Fund's distribution policy will be to distribute cash earnings subject to tax, capital expenditure and debt amortisation/reduction requirements.

### **Key financial statistics**

<b>Period ended</b>	<b>31 December 2010</b>
Fund size (\$m)	33.3
Net tangible assets (NTA) per unit (\$)	1.00
Distribution yield – unit issue price \$1.00 (%)	-
Distribution yield – unit issue price \$1.06 (%)	-
Management fee (%)	0.65
<b>Distributions (cpu)</b>	<b>0.0</b>

### **Investor information**

Investors will continue to receive regular updates on the Fund. Ongoing communication and information relating to the Fund, will be updated via the Fund's website at [www.knightsgroup.com.au/knightstourist](http://www.knightsgroup.com.au/knightstourist) The website also contains general information on the Fund such as property portfolio details, distribution/taxation information, news and reports.

#### **Complaints**

Knights Tourist Park Fund has an established policy for dealing with complaints. Investors wishing to complain should write to:

Knights Tourist Park Fund  
c/- Fund BPO Pty Limited  
GPO Box 4968  
Sydney NSW 2001

Tel: 1300 133 451  
Fax: +61 2 9251 3525

Valuestream and Fund BPO are members of an independent dispute resolution scheme, the Financial Ombudsman Service.

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