



December 2009 Investor Update

CHANGE OF RESPONSIBLE ENTITY / APPOINTMENT OF FUND MANAGER

On the 30th June 2009 Valuestream Investment Management Limited (“Valuestream”) - a responsible entity service provider- was appointed by unitholders as responsible entity of the Knights Coastal Land Fund (“KCLF” or “the Fund”) in place of Mariner Securities Limited. Valuestream then appointed Knights Capital Management Pty Ltd (“KCM”) as its agent to manage the day to day affairs of the Fund.

OVERVIEW OF MARKET CONDITIONS

As indicated in previous Investor Updates, real estate assets across all market sectors worldwide have been severely affected with substantial downward valuations. Regrettably, the Fund’s assets have not escaped this treatment. Although interest rates have come down and are being maintained at a relatively low level, market confidence remains subdued. We do not envisage that there will be any improvements in the coastal residential market for the remainder of 2010.

FUND ASSETS

Blue Dolphin Holiday Resort (Essence of Yamba)

As previously stated, the objective is to ensure that the Blue Dolphin retains its premier status as Yamba’s best holiday resort. To achieve this objective, additional capital expenditure for new cabins, cabin refurbishment and new buildings will be required. With the sale of Yamba Waters having been completed in November 2009 (see below), the co-owners have allocated the second instalment of \$1m towards capital expenditure.

The co-owners are working closely with FreeSpirit, the operator of the Resort, to agree on a capital expenditure programme for the next 12-18 months.

Yamba Waters Caravan Park

As referred to in the November release to unitholders, the co-owners of the Yamba Waters Caravan Park exchanged contracts for the sale of Yamba Waters for \$5.1m. The purchase price was payable in two instalments’ being \$4.1m at completion and the balance of \$1.0m (secured via a bank guarantee) in eighteen months.

Completion was effected on the 10th November, 2009 with the first of the instalments made to enable the secured debt over Yamba Waters to be paid in full. It is intended that the second instalment (payable in May 2011) will be allocated by the co-owners for capital expenditure at the Blue Dolphin Holiday Resort.

A portion of the sale proceeds were paid to unitholders via a capital return (see also Distributions below).

FINANCIAL STATEMENTS

Accompanying this Investor Update are the Financial Statements to 31 December 2009. Due to market conditions, KCM commissioned an updated valuation for the Blue Dolphin Holiday Resort. This valuation is incorporated (proportionate to the Fund ownership of 55%) in the half-year financial statements and summarised below:

	<u>Fair Value as at 31 December 2009</u>		Book Value Per KCLF *	Valuation Methodology
	100% *	KCLF Share *		
Blue Dolphin	22,100	12,155	12,155	Capitalisation methodology, Yield applied 9.0%

* All figures are rounded to the nearest thousand

Debt Facility

Effective 1 January 2009 a new debt facility for \$8 million was put in place by the co-owners for the Blue Dolphin secured against the property until 31 December 2010. Interest on this facility will be serviced out of the rent received from FreeSpirit for the remainder of the lease. The co-owners will commence discussions during the first-half of 2010 with the bank requesting an extension to the term of this facility.

Distributions

The distribution for the second half 2009 was paid in January 2010 (\$0.006 cents per unit, representing an annualised rate of 1.2%). Future distributions will be adjusted to take into account the interest payments on the debt facility however, in line with previous commentary, forecast annualised distributions are expected to be maintained at 1.2% per annum.

Following the sale of Yamba Waters Caravan Park, unitholders also received in January 2010 a return of capital equivalent to \$0.03 per unit.

Material Events Post Reporting Period

In early 2010, a decision was taken by the co-owners to undertake a review of the Stage 1 development of the Essence of Yamba which as unitholders may recall has already received development approval. It was agreed that a revised Master Plan (for Stage 1 only) be prepared taking into account existing market conditions and investor requirements for coastal property. The Master Plan will be completed in the first half of 2010.

Redemption availability

As outlined in the Product Disclosure Statements dated 19th October 2005 no redemption or exit facility will be offered during the life of the Fund until the Fund is wound up. However, investors will be able transfer their units and may participate in any withdrawal offers which are made during the life of the Fund.

The Fund does not have a fixed term. Within one month of the eight year anniversary of the Offer Closing Date, a meeting of unitholders will be convened so that they can vote on an ordinary resolution to either terminate or continue the life of the Fund.

Investor information

Investors will continue to receive quarterly 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/knightscostal The website also contains general information on the Fund such as property portfolio details, distribution/taxation information, news and reports.

Complaints

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

Knights Coastal Land 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.

Privacy

We collect personal information to enable us to tailor our service to the needs of our customers. We only collect personal information directly from customers, for example through application

or enquiry forms, letters and visits to our website or our office. If Investors discover that personal information we hold is inaccurate, incomplete or out of date, or if they no longer wish to receive material from the responsible entity, they should contact our Privacy Officer on the numbers listed below.

Responsible Entity

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Share Registry

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Disclaimer

This document has been prepared by Valuestream Investment Management Ltd ABN 66 094 107 034 AFSL 246621 and Knights Capital Management Pty Ltd ABN 57 117 550 893 AFSL 306365 as Responsible Entity and Fund Manager respectively to the Knights Coastal Land Fund ARSN 115 858 047. The Responsible Entity and Fund Manager their associates related entities and directors do not guarantee the performance of the Knights Coastal Land Fund or the repayment of monies invested While every care has been exercised in the preparation of this document and the information is believed to be correct the Responsible Entity and the Fund Manger do not give any warranty as to the accuracy reliability or completeness of the information. Past performance is not an indication of future performance This document does not contain financial product advice, is provided for general information purposes only and does not have regard for the particular objectives financial situation or needs of any specific person who may read it and who should seek their own professional advice. The information contained in this document is current as at September 2009 and may change from time to time without notice