



**30 June 2011**

## **Annual Financial Report and Investor Update**

### **KEY EVENTS**

- Members resolve at a special meeting to extend the Extension Date for the Fund to 12 December, 2016.
- Concept and Project (Stage 1) Approvals for Essence of Yamba extended from July 2012 to July 2014.
- Withdrawal Offer to Members totaling \$750,000 successfully completed.
- The price per unit decreased to **\$0.29** as at 30 June, 2011 (2010: \$0.39)

### **EXTENSION DATE**

On the 17 June, 2011 the Responsible Entity issued a Notice of Meeting to Members to consider a special resolution to amend the Constitution of the Fund to extend the Extension Date of the Fund to **12 December, 2016**. The Members passed the special resolution at the meeting held on the 22 July, 2011. For the results of the meeting go to [www.knightsgroup.com.au/knightscoastal](http://www.knightsgroup.com.au/knightscoastal)

The key reasons advanced by the Fund Manager Knights Capital Management Pty Ltd (“KCM”) in support of the resolution were:

- The strategy recommendations for the Fund’s asset along with capturing the inherent value in the Concept and Stage 1 Approvals for the Blue Dolphin redevelopment required that the Fund’s term be extended;
- The commercial rationale for taking short term pre-emptive action (such as an asset sale before December 2013 being the present term of the Fund) was absent but if undertaken would result in a serious diminution in Fund value and the level of capital return to be received by all Members; and
- With the property market still in a cyclically low phase, additional time for markets to recover was considered commercially prudent so as to optimise potential investment returns to all Members.

The strategies recommended for the Fund’s assets - being its 55% interests in the Blue Dolphin Holiday Resort (“Blue Dolphin” or “BDHR”) and the Essence of Yamba development are:

- Implement capital expenditure program for additional accommodation (particularly holiday units and or cabins) and ongoing upgrades for BDHR to retain its premier status,

- Monitor market for coastal apartments/holiday accommodation to validate decision to commence the Blue Dolphin redevelopment (Essence of Yamba) in whole in part.

Both these strategies are discussed below.

## **FUND ASSETS**

### **Blue Dolphin Holiday Resort**

FreeSpirit (the operator of the Resort) reports that trading over the past 6 months at the Blue Dolphin has been satisfactory, going against the national trend and ahead of the previous year, underpinned largely by good support from the “winter snowbirds”.

To implement the strategy to ensure that the Blue Dolphin retains its premier status as Yamba’s best holiday resort, the Co-owners are working closely with FreeSpirit to agree on a capital expenditure program and repair and maintenance schedules for the next 12-18 months. Additional capital expenditure for new cabins, cabin refurbishment and new buildings will be planned for with a total budget in the vicinity of \$750,000.

### **Essence of Yamba**

The Co-owners were successful in their application to the NSW Department of Planning seeking an extension of two years from July 2012 to July 2014 for the Concept and Project Approvals already awarded for the Essence of Yamba development. This is a significant event as it will provide greater flexibility to the Co-owners to pursue commercial options in the period ahead.

However, as indicated in the report prepared by RP Data that accompanied the Notice of Meeting to Members in June, the market conditions for coastal units:

“... have been relatively poor performers during recent years and the outlook does not favour a resurgence in capital gains during the short to medium term (likely to be the next three years or so at least). A recovery is likely to be spurred by improvement in overseas conditions and a return of tourist interest to Australia”.

As the asset strategy identifies, monitoring the market for coastal units and seeing an improvement will be critical in determining whether the development (Stage 1) can go ahead. The tourism component of the development (Stage 2) - which involved the construction of 117 tourist resort units, recreational and conference facilities etc. - may prove to be more attractive to investors particularly from Asia and warrants further focus. With the revised extension dates for the Concept and Project Approvals and for the Fund in place, KCM is better positioned to assist the Co-owners with the development.

## FINANCIAL STATEMENTS

Accompanying this Investor Update are the Annual Financial Statements to 30 June, 2011.

As an integral part to obtaining the new debt facility (see below), KCM commissioned an updated valuation for the Blue Dolphin. This valuation is incorporated (proportionate to the Fund ownership of 55%) in the year end financial statements and is summarised below. As highlighted to Members in the Explanatory Memorandum that accompanied the Notice of Meeting, the market valuation for the Blue Dolphin has been quite volatile since the start of the Fund in 2005. With the property market slowly emerging from a cyclical low phase, the prospects for a quick valuation turnaround would appear remote. That said, the likelihood of further significant asset impairment to the Blue Dolphin is diminishing.

	Fair Value as at 30 June 2011		Book Value Per KCLF *	Valuation Methodology
	100% *	KCLF Share *		
Blue Dolphin	18,350	10,092	10,069	Capitalisation methodology, Yield applied 10.0%

\* All figures are rounded to the nearest thousand

### Debt Facility

In January, 2011, the Co-owners entered into a new loan facility with the Commonwealth Bank of Australia. The principal terms and conditions are:

Facility Limit: \$8,250,000

Term: 2 years from February 2011

Repayment: Interest only on commercial bill facility

Interest: 90 day BBSY\* plus line fee of 2.08%

Security: The Blue Dolphin land, assets and undertaking

\* In early August, 2011 a fixed one year rate of 4.05% was secured

The financial statements to 30 June, 2011 show the loan balance of \$4,537,500 which represents the Fund's 55% of the debt facility. The Bank's sole covenant of an Interest Cover of no less than 1.8 times has been complied with by actual cover of 3.58 times.

## **Distributions**

The distribution for the first half 2010/2011 was paid in January 2011 at \$0.6 cents per unit. There was no final distribution for the second half to 30 June 2011. Future distributions will be need to allow for interest payments on the debt facility and the Fund's proportion of capital expenditure at the Resort. However, forecast annualised distributions are budgeted at \$1.2 cents per anum. A distribution for the first quarter 2011/12 of \$0.6 cents per unit is proposed..

## **Material Events Post Reporting Period**

A withdrawal offer was included with the Notice of Meeting sent to Members in June, 2011 to enable those Members wishing to dispose of their units at a redemption price of \$0.2929 per unit to do so. A maximum of \$750,000 was allocated for withdrawals. By the 4 July, 2011 2,560,601 units were received and accepted for withdrawal and \$750,000 was paid (on a pro-rata basis) to those Members on 6 July, 2011. Following the cancellation of the withdrawal offer units, there are 22,439,399 units on issue resulting in an **adjusted** unit price as at 30 June, 2011 of **\$0.32 per unit**.

## **Redemption availability**

As outlined in the Product Disclosure Statements dated 19<sup>th</sup> 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. Following Members passing the special resolution at the 22 July, 2011 meeting, within one month of the revised Extension date of 12 December, 2016, a meeting of Members 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 half-yearly 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/knightscoastal](http://www.knightsgroup.com.au/knightscoastal) 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

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

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### Responsible Entity

Valuestream Investment Management Ltd  
Suite 12  
18 Stirling Hwy  
Nedlands WA 6009

Tel: 08-9355 5044  
Fax: 08-6389 0366

Email: [invest@valuestream.com.au](mailto:invest@valuestream.com.au)  
Web : [www.valuestream.com.au](http://www.valuestream.com.au)

### Fund Manager

Knights Capital Management Pty Ltd  
Suite 11/ 5 Colin Street  
West Perth WA 6005

PO Box 272  
Floreat WA 6014

Tel: 08-93243888  
Fax: 08-93228788

Email: [knightsgroup@inet.net.au](mailto:knightsgroup@inet.net.au)  
Web : [www.knightsgroup.com.au](http://www.knightsgroup.com.au)

### Share Registry

Fund BPO Pty Limited  
GPO Box 4968  
Sydney NSW 2001

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

Email: [info@mainstreambpo.com](mailto:info@mainstreambpo.com)  
Web: [www.mainstreambpo.com.au](http://www.mainstreambpo.com.au)

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