



**December 2009**

## **Investor Update**

### **CHANGE OF RESPONSIBLE ENTITY / APPOINTMENT OF FUND MANAGER**

As previously disclosed Valuestream Investment Management Limited (“Valuestream”) - a responsible entity service provider - was appointed as responsible entity of the Knights Tourist Park Fund (“KTPF” or “the Fund”) effective the 3<sup>rd</sup> September 2009. Valuestream then appointed Knights Capital Management Pty Ltd (“KCM”) as its agent to manage the day to day affairs of the Fund.

#### **Fund update**

During the period the Fund focused on its upcoming debt maturity. The current facility of \$20.9 million is set to expire in September 2010. Negotiations with the bank progressed with the intention to finalise the new facility by the end of March 2010. See now Material Events Post Reporting Period below.

Distributions for the period to 31 December 2009 were 2.5 cents per unit. Distributions for the financial year are expected to be lower than previously forecast due to the increased funding requirements for the sewer upgrade at FreeSpirit Resort, Darwin.

The Fund continued to focus on finding a long-term solution to the temporary sewerage plant installed at FreeSpirit Resort, Darwin. Unfortunately, the preferred supplier for the on-site treatment plant, (identified by the previous responsible entity and fund manager), was unable to satisfy KCM’s due diligence requirements.. Although a setback in terms of timing, it has presented the Fund with an opportunity to pursue a connection to the main sewerage system with the Northern Territory Power and Water Corporation. This is considered a more viable long term solution with minimal ongoing maintenance requirements. See also Material Events Post Reporting Period below.

#### **Fund Overview**

##### **Distributions**

The half year distribution to 31 December 2009 was 2.5 cents per unit. The Fund has retained cash to complete the sewerage works at Darwin.

## Portfolio overview

As at 31 December 2009, 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	21.5	10.0	11.3
Fraser Lodge, Hervey Bay	QLD	Nov 2005	Dec 2009	8.7	8.7	9.0	3.2
<b>TOTAL PROPERTY PORTFOLIO</b>				<b>31.7</b>	<b>30.2</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) decreased to \$0.93 per unit at 31 December 2009, from \$1.04 per unit as at 30 June 2009. The decline in NTA was primarily due to a decrease in the valuation of the Fund's assets.

## Valuations

Independent valuations were undertaken by Colliers International on both of the Fund's assets at 31 December 2009. Fraser Lodge's valuation fell by \$1.8 million to \$8.7 million and the valuation of Free Spirit Resort Darwin decreased by \$0.6 million to \$23.0 million (inclusive of loan for chattels).

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 are available from the Fund's website.

## Geographic diversification

The Fund's property assets are weighted, by book value, 71 per cent to the Northern Territory and 29 per cent to Queensland market.

### **Lease expiry profile**

The weighted average lease expiry profile, by income, is 6.1 years.

### **Top tenants**

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

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

### **FreeSpirit Resort Darwin**

Trading over the past 6 months to December was reasonable. Tourist income remained steady and slightly up on the prior year however, the income from corporate/mining guests was markedly lower than in prior years. This is attributed to the hiatus in major contract activity in the Northern Territory at present. Long term forecasts indicate that this low level of activity is likely to improve in the next 1 to 2 years.

Management is reviewing the capital expenditure program at present with an emphasis on a major refurbishment program for a number of the older styles of accommodation.

A decision was recently taken to leave the Big 4 franchise chain on the basis of cost/benefit.

Conference and wedding activity was strong in the lead up to Christmas and over the wet season with a record number of events taking place. Forward bookings for the coming dry season have commenced and at this early stage are looking promising.

Regrettably, the due diligence process with the preferred on-site treatment plant supplier did not conclude favourably. The Fund has since advanced discussions with the Northern Territory Power and Water Corporation to facilitate a connection by the Resort to the main sewer line. On the basis that all necessary agreements and approvals can be obtained (and that construction can commence by the second quarter 2010) then the commissioning of the sewer connection by mid-2010 is conceivable. See also Material Events Post Reporting Period below.

## Fraser Lodge, Hervey Bay

As previously reported, Hervey Bay continues to suffer from an oversupply of accommodation at all levels, resulting in price discounting and lower occupancies. Despite this, revenue and profitability year to date for Fraser Lodge is holding at or around last year's levels and in line with budget.

Management is currently exploring options to repair major water issues in the studio units and an action plan will be prepared for consideration by the Fund in the near term.

### Debt management

#### *Debt facility*

Year ended	31 December 2009
Total interest bearing debt facility (\$m)	20.9
Total interest bearing debt (drawn) (\$m)	20.6
Hedging ratio (%)	80
Weighted average hedge rate (%)	6.75
Weighted average hedge maturity (years)	1.8
Gearing ratio <sup>1</sup> (%)	65.0
Interest cover <sup>2</sup> (times)	2.19

<sup>1</sup> The gearing ratio is calculated using information from the Fund's Half Year Accounts as at 31 December 2009 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. The loan to value covenant ratio disclosed in the debt facility documents is 64.0 per cent.

<sup>2</sup> Interest cover ratio is calculated using information from the Fund's Half Year Financial Report as at 31 December 2009 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. The interest cover ratio covenant disclosed in the debt facility is 2.0 times.

The Fund has a total debt facility of \$20.879 million, set to expire in September 2010. The Fund's gearing at 31 December 2009 was approximately 65.0 per cent, which is just above the maximum loan to value covenant of 64.0 per cent. This breach was driven by the downward valuation of the two properties. Negotiations with the bank are progressing to extend the term. See also Material Events Post Reporting Period below.

### 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 requirements.

A review of the Fund's forecast earnings (including the estimated costs for the sewerage work and additional debt facility fees) indicate that a forecast distribution of 5.5 cents per unit for the 2010 financial year may be considered. This amount and the timing for payment however, remains subject to review and may be impacted upon by a variety of factors including market conditions.

### Material Events Post Reporting Period

As referred to above, the Fund has been progressing discussions with its Bank to extend the existing debt facility. In March 2010, Valuestream (as Responsible Entity) accepted a Corporate Letter of Offer from National Australia Bank Ltd for a new debt facility the key terms being:

Facility Limit	\$20,630,900
Commencement Date	31 <sup>st</sup> March 2010
Expiry Date	31 <sup>st</sup> October 2012
An Amortising Facility	\$90,000 per quarter
Yield Rate	Floating Rate*
Financial Covenants	Minimum interest cover of 2 times Loan / value ratio of no greater than 65.1%
Security	Fixed and Floating Charge through the Responsible Entity and Custodian over the assets of the Fund as well as registered first mortgages over the FreeSpirit Resort and Fraser Lodge Holiday Park

\*Two new hedges were put in place in November 2009 in line with the proposed new facility term. The weighted average hedge rate as at December was 6.75 per cent, with a weighted average hedging expiry of 1.8 years.

In late February/early March 2010, the Fund entered into an in principle cost sharing understanding with the Northern Territory Power and Water Corporation ("PWC") to facilitate a connection by the FreeSpirit Resort to the main sewer line. PWC and the Fund will contribute (in various proportions) for the two components of the infrastructure namely:

- The design and construction costs of the pump station and rising main; and
- Tor the design and construction costs of the road crossing at Stuart Highway.

This infrastructure will be owned and maintained by PWC. PWC and the Fund have appointed Arup Pty Ltd as project consultants. The Project timeline has a completion date of early June 2010. It is envisaged that a formal agreement between PWC and the Fund will be entered into in the second quarter 2010.

### Key financial statistics

Period ended	31 December 2009
Fund size (\$m)	33.7
Net tangible assets (NTA) per unit (\$)	0.93
Distribution yield – unit issue price \$1.00 (%)	2.5
Distribution yield – unit issue price \$1.06 (%)	2.4
Management fee (%)	0.65
<b>Distributions (cpu)</b>	<b>2.5</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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<b>Responsible Entity</b>	<b>Fund Manager</b>
Valuestream Investment Management Ltd Suite 12 18 Stirling Hwy Nedlands WA 6009  Tel: 08-9355 5044 Fax: 08-6389 0366  Email: <a href="mailto:invest@valuestream.com.au">invest@valuestream.com.au</a> Web : <a href="http://www.valuestream.com.au">www.valuestream.com.au</a>	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: <a href="mailto:knightsgroup@inet.net.au">knightsgroup@inet.net.au</a> Web : <a href="http://www.knightsgroup.com.au">www.knightsgroup.com.au</a>
	<b>Share Registry</b>  Fund BPO Pty Limited GPO Box 4968 Sydney NSW 2001  Tel: 1300 133 451 Fax: +61 2 9251 3525  Email: <a href="mailto:info@mainstreambpo.com">info@mainstreambpo.com</a> Web: <a href="http://www.mainstreambpo.com.au">www.mainstreambpo.com.au</a>

### Disclaimer

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